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PREPARATION FOR THE 1990 FARM BILL

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

ON

THE ADMINISTRATION VIEWS CONCERNING THE 1990 FARM BILL

APRIL 19, 1989

PART I

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry

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CONTENTS

Page
Hearing held on: April 19, 1989 1

PREPARATION FOR THE 1990 FARM BILL

Administration Views

Leahy, Hon. Patrick J., a U.S. Senator from Vermont, opening statement 1
Lugar, Hon. Richard G., a U.S. Senator from Indiana 2
Letter, with enclosures, from Stephen B. Dewhurst, Director, Office of the Secretary, Office of Budget and Program Analysis, U.S. Department of Agriculture, dated April 18, 1989 4
Pryor, Hon. David H., a U.S. Senator from Arkansas, prepared statement 24
Conrad, Hon. Kent, a U.S. Senator from North Dakota, prepared statement, with attachments 24
Cochran, Hon. Thad, a U.S. Senator from Mississippi, prepared statement 70
McConnell, Hon. Mitch, a U.S. Senator from Kentucky, prepared statement 70
Bond, Hon. Christopher S. "Kit", a U.S. Senator from Missouri, prepared statement 71
Wilson, Hon. Pete, a U.S. Senator from California, prepared statement and Washington Post, Monday, April 10, 1989, article, "Farm Turnaround" 72

CHRONOLOGICAL LIST OF WITNESSES

Yeutter, Clayton, Secretary of Agriculture, U.S. Department of Agriculture, Washington, DC 73
  Prepared statement 81
Response to Senator Lugar's question to what extent will any of the $36 billion be taken care of in the budget that the USDA is presenting now 89
Farm program costs and the Federal budget, submitted by Senator Kerrey 112

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

Leahy, Hon. Patrick J., chairman, Committee on Agriculture, Nutrition, and Forestry, letter of, enclosure, dated May 4, 1989, to Hon. Clayton Yeutter, questions submitted for the record 115
Questions submitted by:
  Senator Leahy 115
  Senator Baucus 118
  Senator Bond 119
  Senator McConnell 119
  Senator Pryor 120
  Senator Daschle 121
  Senator Conrad 122
  Senator Harkin 123

Page

RESPONSES RECEIVED FOR THE RECORD

Responses for:
  Senator Leahy Nos. 1-24 125
  Senator Baucus Nos. 25-30.......... 135
  Senator Bond Nos. 31-34 137
  Senator McConnell Nos. 35-39 140
  Senator Pryor Nos. 40-50 141
  Senator Daschle Nos. 51-55 143
  Senator Conrad Nos. 56-76.......... 145
  Senator Harkin Nos. 77-90 149

PREPARATION FOR THE 1990 FARM BILL
Administration Views

WEDNESDAY, APRIL 19, 1989

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in room SR-332, Russell Senate Office Building, Hon. Patrick J. Leahy (chairman of the committee) presiding.

Present or submitting a statement: Senators Leahy, Pryor, Heflin, Harkin, Conrad, Daschle, Baucus, Kerrey, Lugar, Helms, Cochran, Boschwitz, McConnell, Bond, and Gorton.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

The CHAIRMAN. Mr. Secretary, as you know, we have the savings and loan legislation on the floor. A number of Senators who are members of this committee on both sides of the aisle are also involved in that and will be going back and forth. But with the kind of comments that both Senator Lugar and I received in the last couple days, they are quite interested in the hearing.

Mr. Secretary, we did not want to give you too much time to get comfortable in your new job before we asked you to come up and discuss the farm bill with us.

As you and everyone knows, there has been a great deal of speculation about the prospects for doing a farm bill in 1990. The truth is that I and my colleagues on this committee and the House Agriculture Committee are determined to move forward on a new long-term farm bill. I would like to see the bill completed by the summer of 1990 and not be down to adjournment-day face-offs. We expect that bill to be completed in the summer of 1990.

It is the only responsible thing that we can do. We do not believe that we can wait until the GATT negotiations are completed for a farm bill. Our farmers are counting on us to ensure as much predictability—and income protection—as we can. The current legislation has its advantages and disadvantages. We will examine it thoroughly and make the appropriate changes. Those things that seem good, we will keep; and those that need changes, we will try to change.

Also we cannot forget that there are a number of issues covered by the farm bill that are affected only indirectly—or not at all by the GATT negotiations.

Research, conservation, and nutrition are a few of the important subjects that we need to revisit and examine.

So the hearing today, Mr. Secretary, kicks off our efforts on the 1990 farm bill. In fact, next week, the committee will travel to the South and parts of the Midwest to hear from farmers, local representatives, and those who live in rural America. I believe the people directly affected by what we do inside the beltway will have some very useful advice for us.

We will be in four different States during the Senate recess. I think that the people most affected by what we do here in Washington ought to get a chance to testify without having to come to Washington; and many of them will in different parts of the country.

It is a procedure that Senator Lugar and I used with the drought legislation. During the last 2 years, it has worked very well. We sometimes hear the same things we hear here. Oftentimes, we hear something different.

As I said, our goal is to have a farm bill that the President will sign on his desk in the summer of 1990.

That brings me back to the real point of this hearing which is your involvement, Mr. Secretary. I have said before—and I hope this kind of a comment coming from a Democrat does not hurt you with the White House—you are a man of formidable talents and energy and we very much want your expertise and your judgment as we plough through this process. We want to work with you on it. We hope that you and your staff, and your key people at the Department will be full partners in this effort.

But of course, we have to move ahead, as I told you last week when Senator Lugar and I met with you. We would like to go forward with the idea that the administration also wants a multiyear farm bill and will be proposing one of its own that we can look at and can react to; and that this committee will have some very open and direct lines of communication with you.

But let me warn you about the obvious. We must move ahead. We asked you here today because we value your judgment on agricultural policy and we want to hear your views about the direction we should take in 1990.

Please be as specific as you can. Thank you for joining us today Mr. Secretary.

I yield to Senator Lugar.

STATEMENT OF HON. RICHARD G. LUGAR, A U.S. SENATOR FROM INDIANA

Senator Lugar. Well, thank you very much, Mr. Chairman. I would mention that I saw Senator Conrad on the way to the Budget Committee. They were having an important quorum problem. And so, I promised that I would indicate to the Secretary and to you, Mr. Chairman, his specific interest in the hearing, and his hope that he might join us.

Mr. Chairman, I commend you again for calling this 1990 farm bill hearing at this early date.

The committee has, in fact, two farm bills to deal with. One is a short-term bill and one is the long-term farm bill.

The short-term bill involves responding to the leadership budget agreement reached this weekend. Although it appears that agriculture spending reductions will be modest, savings of approximately $600 million will need to be made by this committee in fiscal year 1990.

And as you know, Mr. Chairman, the committee can comply with its instructions from the Budget Committee in any way we see fit. We could take the money out of food stamps, farm credit, commodity programs, or any combination of the programs under our jurisdiction. It is commonly understood in recent times, however, that the committee will make its reconciliation saving out of price and income support programs.

In this light, and having a sense that the committee would indeed eventually have to face this deficit question again, I asked the U.S. Department of Agriculture in February to give me details about where savings could be made.

I specifically asked USDA to review the Congressional Budget Office's recommendations for savings. The CBO had identified 11 options for savings in a report submitted to Congress. In addition, USDA has given me a more detailed analysis of target price reduction options, and the much talked about "triple base" idea.

I would like to make the USDA document part of today's record, and available to members of the committee at this time.

I am particularly pleased to be provided with additional information on the "triple base" idea. It appears to provide more flexibility for farmers along the lines of the policy we began in the 1988 drought bill. Further, the effect on farm income could be far more favorable when compared to a reduction in target prices, for example.

The USDA document suggests, that in order to make the triple base program more meaningful and to give producers more options to recover lost deficiency payment income, some option to plant crops other than program crops must be considered. Others, such as Senator Bond, suggest that a specific list of eligible crops be included in the farm bill.

I do not know at this time which crops the Department should allow to be planted on this third-tier acreage. I am also uncertain about the timing of such announcements in order to provide producers with ample planning time. I understand that some of the suggested alternative crops, such as canola, are winter varieties and would therefore need to be included as an alternative crop by the time Winter wheat is supposed to be planted in the fall.

President Bush seems to have included the triple base, or "payment acre" approach, in his budget message. I am hopeful that Secretary Yeutter would share any thoughts he has on this subject.

Based upon the feedback we receive from the Secretary today—and other committee members for that matter—I intend to introduce a three-tier base plan when we return from recess on Monday, May 1.

I invite any of you who are interested to get in touch with my staff in order to make a more comprehensive and thoughtful approach to this concept.

I have taken advantage, obviously, of this opening statement to invite your comments specifically, Secretary Yeutter, on this approach on the hypothesis that we will have to do something. And this is an area in which we might make some headway in terms of flexibility.

I thank you, Mr. Chairman.

[The USDA letter to Senator Lugar follows:]

U.S. DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
OFFICE OF BUDGET AND PROGRAM ANALYSIS,
Washington, D.C., April 18, 1989.

Hon. RICHARD LUGAR,
Ranking Minority Member, Committee on Agriculture, Nutrition, and Forestry, U.S. Senate, Washington, D.C.

DEAR SENATOR LUGAR: In response to your request of February 21, I am enclosing a set of Department staff analyses of the budget saving options for farm programs identified by the Congressional Budget Office (CBO) In addition, an analysis of reducing deficiency payment acreage is also enclosed per your request. It should be understood that these staff analyses do not necessarily represent the Administration's position on these items.

Our analysis of the CBO options is based on supply/demand conditions reflected in President Reagan's January Budget. Differences between the Department's and CBO's baseline assumptions result in differences in our savings estimates for some options. In particular, since the USDA baseline has higher target prices and deficiency payments than does the CBO baseline, our estimated savings for some of the options are greater than CBO's estimates of savings. Also, our staff analysis of the Export Enhancement Program puts in doubt CBO's assumption that the program increases outlays. Estimated budget impacts for options such as decoupling direct payments are dependent on what further assumptions are made about how the program would be implemented. Additional explanation about the differences between CBO and USDA savings estimates is provided in the enclosure.

As CBO has indicated in its analysis, some of the options, such as "decoupling" versus target price reductions, are mutually exclusive. Other options could be implemented simultaneously, although estimated savings may be affected by interactions among program variables. For these reasons, as well as the normal uncertainties about estimating farm program outlays, the budget savings estimates we are providing should be viewed as indicators of the order of magnitude of likely savings rather than as precise and accurate estimates, particularly for some of the options which are not yet well specified.

Sincerely,

STEPHEN B. DEWHURST,
Director.

Enclosures.

Summary of CBO Proposals to Reduce Outlays for Farm Programs

CBO Option No.	Item	Estimated Reductions FY 1990 USDA	Estimated Reductions FY 1990 CBO	Estimated Reductions FY 1990-92 USDA	Estimated Reductions FY 1990-92 CBO
		($ Million)			
	Reduce Deficiency Payments				
AGR-01	Target Prices 95% of Previous Year's Level	400	300	3,700	2,300
	Target Prices 5% Below USDA Baseline Levels	900	NA	4,500	NA
AGR-02	Insurance Premium for Target Prices	900	600	4,700	3,700
AGR-03	Replace Defic. Pymt by Declining Direct Payment (Decoupling)	-100 a/	100	-500 a/	700
AGR-04	Increase ARP Requirements	700	900	4,200	4,800
	Reduce Payment Acreage-Flexibility	800	NA	4,800	NA
AGR-06	Reduce Payment Limit to $40,000	200 b/	230	600 b/	1,250
	Reduce Price Support Outlays				
AGR-05	Loan Origination Fees	30	200	300	500
AGR-09	Dairy Assessment of 20¢	300	400	1,000	1,000
	Reduce Export Programs				
AGR-07	Eliminate EEP	-- c/	300	-- c/	1,250
AGR-08	Eliminate or Reduce TEA	95	100	95	700
	Crop Insurance				
AGR-10(a)	Eliminate Premium Subsidy	10	10	210	210
AGR-10(b)	Eliminate Premium and Administrative Subsidy	10	10	310	310

(Negative sign denotes net addition to outlays.)

a/ USDA estimate for AGR-03 assumes decoupled deficiency payments without adjustment to baseline loan rates.

b/ Due to the complexity of payment limit provisions, projections of savings are tenuous. Over time, as producers adapt their operations to changes in the rules, savings projected earlier tend to erode.

c/ USDA has not identified any savings that can legitimately be claimed to result from elimination of the EEP. Elimination of the program could reduce exports and possibly lead to increased CCC costs.

NOTE: Some alternatives complement others and could be implemented as a package. Some could be implemented only to the exclusion of others. Since savings are not additive, no total outlay reduction is provided.

Lower Target Prices 5 Percent Per Year Starting with the 1990 Crop

CBO Option(AGR-01)

- CBO suggests reducing target prices by 5 percent per year starting with the 1990 crop.
- CBO projects savings of $5.1 billion over the FYs 1990-94 period and $1.2 billion over the FYs 1990-91 period. Savings would come from lower deficiency payment rates and lower program participation.

FY1990	FY1991	FY1992	FY1993	FY1994	Total
		Mil. $			
327	872	1,091	1,274	1,583	5,147

USDA Comments

- CBO savings are smaller than those projected by USDA under this option largely due to differences in baseline assumptions. The CBO baseline assumes target prices would continue to decline at the same annual rate as under the 1985 Farm Bill between for the 1989 and 1990 crops. The USDA baseline assumes that target prices continue to decline at the same annual rate as under current legislation which leads to a more gradual decline in target prices than that assumed by CBO. Thus, target prices are 4-6 percent lower in the CBO baseline by 1994 compared with the USDA baseline. USDA estimates savings of $9.1 billion over FYs 1990-94 or about $4.0 billion higher than CBO's estimates with much of the difference due to higher baseline target prices.

FY1990	FY1991	FY1992	FY1993	FY1994	Total
		Mil. $			
430	1,280	1,990	2,540	2,840	9,080

- USDA projects by 1994 participation rates would fall to 50 to 60 percent for wheat, feed grains, and cotton as target prices fall to levels near market prices. Participation in the rice program would remain high as rice prices remain well below target prices. Participation rates for wheat, feedgrains, and cotton fall 10-20 percentage points compared to the baseline.

Lower Target Prices 5 Percent from the Baseline

Option

- Reduce target prices by 5 percent beginning with the 1990 crop from USDA baseline levels. (See attached table for target price levels.)

USDA Comments

- For the 1990 crops, target prices are cut an additional 5 percent from the baseline resulting in reductions of 6-8 percent from 1989. Savings under this option for FYs 1990-91 are estimated at $2.6 billion. Over the FYs 1990-94 period, savings are estimated to total $7.7 billion.

FY1990	FY1991	FY1992	FY1993	FY1994	Total
		Mil. $			
860	1,780	1,890	1,600	1,530	7,660

- Under this option, participation in the wheat, feed grain, and cotton programs generally falls to 60-70 percent by 1994, down about 20 percentage points from current levels. Participation in the rice program remains above 90 percent. Producer returns under the program generally remain favorable to those outside the program through 1994.

USDA and CBO Baseline Target Prices and Reduced Target Prices

	89 Crop Announced	90 Crop	91 Crop	92 Crop	93 Crop	94 Crop
Corn ($/bu.)						
USDA						
Baseline	2.84	2.75	2.66	2.57	2.48	2.39
5 Percent Cut 1/		2.61	2.53	2.44	2.36	2.27
CBO						
Baseline	2.84	2.75	2.63	2.51	2.40	2.29
5 Percent Cut 2/		2.70	2.56	2.43	2.31	2.20
Wheat ($/bu.)						
USDA						
Baseline	4.10	4.00	3.90	3.80	3.71	3.62
5 Percent Cut 1/		3.80	3.70	3.61	3.52	3.44
CBO						
Baseline	4.10	4.00	3.85	3.70	3.56	3.42
5 Percent Cut 2/		3.89	3.70	3.52	3.34	3.17
Upland Cotton (¢/lb.)						
USDA						
Baseline	73.40	72.90	72.40	71.90	71.40	70.70
5 Percent Cut 1/		69.30	68.80	68.30	67.80	67.20
CBO						
Baseline	73.40	72.90	71.30	69.80	68.30	66.80
5 Percent Cut 2/		69.70	66.20	62.90	59.80	56.80
Rice ($/cwt.)						
USDA						
Baseline	10.80	10.71	10.62	10.53	10.44	10.35
5 Percent Cut 1/		10.17	10.09	10.00	9.92	9.83
CBO						
Baseline	10.80	10.71	10.48	10.25	10.02	9.80
5 Percent Cut 2/		10.26	9.75	9.26	8.80	8.36

1/ Target prices are 95 percent of baseline levels for the same crop year.

2/ Target prices are 95 percent of the previous year's target prices and do not relate directly to baseline levels.

Charge an Insurance Premium for Target Price Protection

CBO Option(AGR-02)

- CBO identifies an option of charging farmers an insurance premium for the income protection provided by deficiency payments. It suggests premiums beginning with the 1990/91 crops equal to 5 percent of 1990/91 target prices.
- CCC outlays are estimated by CBO to fall by:

FY1990	FY1991	FY1992	FY1993	FY1994	Total
		Mil. $			
600	1,550	1,540	1,590	1,590	6,870

- Administrative costs of establishing and administering the program are not included in the above estimates.
- CBO does not provide any specific details on program design. It indicates alternative long term instruments could be developed to shift programs into self-financed insurance program possibly including comprehensive revenue insurance.

USDA Comments

- USDA estimates additional savings of $200-$450 million per year and $1.26 billion for the FYs 1990-94 period compared to CBO's estimates. Again, these estimates exclude the costs of establishing and administering the program.

FY1990	FY1991	FY1992	FY1993	FY1994	Total
		Mil. $			
860	1,820	1,990	1,740	1,720	8,130

- Charging farmers a fee for target price protection is equivalent to reducing the target price. This option as formulated by CBO is nearly identical to a 5-percent reduction in target prices.
- Masking a target price reduction by creating a revenue insurance program, or at least the potential for such a program, may not reduce outlays in the long term unless adequate fees can be collected with minimum subsidization.
- Administrative costs could be much higher than the current target price-deficiency payment program.

Replace Deficiency Payments with Declining Direct Payments (Decoupling)

CBO Option (AGR-03)

- o This option calls for separating government payments from producers' production and marketing decisions by using a fixed but declining direct payment in place of a deficiency payment.

- o CBO's decoupling option has no explicit provisions. Their analysis does not specify payment rates, loan rates or ARP levels. CBO simply assumes that a decoupling option exists that would reduce program costs by 4 percent per year. Their savings estimates are derived by multiplying the deficiency payments projected in their baseline by 0.04:

CBO Savings: Declining Direct Payments (Mil. $)

FY 1990	FY1991	FY 1992	FY 1993	FY 1994	5-Year Total
130	300	250	190	150	1,020

USDA Comments

- o Decoupling proposals have generally been estimated to cost more than current programs, because phasing out ARP's causes large net loan outlays, even with reduced loan rates. To obtain the CBO savings would require no cost exposure from loans, which means loan rates set below market prices. If there are loan costs, the direct payment rates would have to be very small.

- o The direct payment rate applies to all base acres, so it must be lower than the deficiency payment rate it replaces. CBO's estimated deficiency payments for each crop--after the 4-percent reduction--when spread across total base acres suggests direct payment rates about two-thirds of CBO's baseline deficiency payment rates.

- o Using crop-year direct payment rates set at two-thirds of projected deficiency payment rates may not achieve the fiscal year savings indicated by CBO. Current deficiency payments are spread over 3 fiscal years--advance payment, 5-month payment, and 12-month payment. If the fixed direct payment is spread over only 2 years--advance payment and 5-month payment--outlays would increase in FY 1990 and FY 1991.

- o A strict decoupling example shows the difficulty of reducing outlays in the short run. Target prices/deficiency payments are replaced with fixed direct payment rates. The rates in 1990 are: wheat, $.50/bu.; corn $.70/bu.; rice $4.00/cwt; cotton $.05/lb. The rates decline to zero over 5 years. ARP's are eliminated. Loan rates are the same as in the President's budget. No payments are made for soybeans (consistent with CBO's analysis).

- CCC outlay savings are estimated as follows:

	FY1990	FY1991	FY1992	FY1993	FY1994	Total
			Million dollars			
Strict Decoupling	(100)	(1,500)	1,100	1,800	1500	2,800

- Under this decoupling example, outlays rise by $1.6 billion during FY 1990-91 because loan outlays rise and the decoupled direct payments are assumed to be made earlier than deficiency payments. These 2-year costs could be reduced by using loan rates below those in the President's budget and by delaying the direct payments.

- With ARP's eliminated, market prices would be below baseline prices. Per bushel returns would drop for every commodity and net returns would drop for most.

Increase Unpaid Acreage Reduction Requirements

CBO Option(AGR-04)

- CBO suggests increasing the acreage reduction requirements for all program crops from baseline levels by 5 percentage points beginning with the 1990/91 crops.

- CBO estimates CCC outlays would fall by:

FY1990	FY1991	FY1992	FY1993	FY1994	Total
		Mil. $			
900	2,100	1,770	1,410	1,150	7,340

- Raising the acreage reduction requirement would reduce outlays because less production would be eligible for deficiency payments and other program benefits, prices would tend to rise causing lower deficiency payment rates, and fewer producers would participate in programs. Higher prices would enable farmers to get more of their income from the market, rather than direct government payments.

- U.S. commodities would be less competitive in world markets and U.S. agricultural exports would fall. Increasing the acreage reduction requirement would adversely affect businesses serving agriculture both upstream and downstream. Increasing the acreage reduction requirement would simply shift program costs from taxpayers to consumers.

USDA Comments

- USDA estimates savings of:

FY1990	FY1991	FY1992	FY1993	FY1994	Total
		Mil. $			
700	1,490	2,050	1,800	1,230	7,270

- CBO's estimated savings for FY1990 and FY 1991 are slightly above USDA's since the CBO baseline assumed somewhat higher stocks for some major commodities in that period.

- With stocks near or below adequate levels for many program crops and the potential for further weather problems, higher acreage reduction requirements would result in significant increases in U.S. grain prices reducing our competitiveness in world markets.

- Higher crop prices combined with last year's drought would place additional financial hardship on livestock producers. Livestock producers would respond by reducing their herds eventually leading to higher retail meat prices.

Reduce Percent of Acreage Eligible for Payments and Increase Planting Flexibility on the Unpaid Acres

Option

- This is a suggested option in the President's budget.

- Description. Deficiency payments and loans would apply only to a percentage of permitted acres. The percentage would be set to achieve a needed level of savings. A producer would then have 3 categories of base acres: 1) permitted acres on which deficiency payments are made, 2) permitted acres on which no payments are made, and 3) idle or ACR acres. The permitted acres no longer eligible for payments or loans could be planted to any program crop, including soybeans, at the producer's discretion. This option was referred to in the President's budget and Reps. Stenholm and Roberts are drafting a similar bill--referred to as the "triple base" option.

- Specific provisions. Begins with 1990 crops. Target prices and loan rates: same as in current services budget. Acreage reduction programs: as required by law. To achieve savings comparable to a 5 percent reduction in target prices, the portion of permitted acres eligible for payments and loans is set at 85 percent. (Note: it may be more convenient to establish the payment percentage as a percent of base acres, rather than permitted acres, so that payment acreage computations are not automatically affected by changing ARP percentages.)

- Effects. Total payments to farmers are reduced by lowering the quantity eligible for payments, rather than lowering the payment rate. The target price still determines plantings on that portion of permitted acres eligible for payment. Relative market prices determine plantings on the remaining portion of permitted acres. This reduces distortions in acreage caused by target prices.

  --Sample farm. Under a 10% ARP, a producer with a 100-acre corn base has 90 permitted acres and would receive deficiency payments on 76.5 acres (90 times .85). The producer would be free to plant wheat, rice, upland cotton, any feed grain, including corn, and soybeans on the 13.5 acres (90 minus 76.5).

  --Acreage. In 1990, about 21 million permitted acres would not receive payments. An estimated 3-4 million would go into soybeans; the remainder would be planted to the original program crop or not be planted.

  --Market effects. Corn and soybeans would be most affected. During the 1990 and 1991 seasons, the corn market would tighten and prices rise somewhat, but soybean prices would drop. Farm income would be affected in the short run by about the same magnitude as with a 5-percent target price cut. Moreover, market conditions for crops such as soybeans which would likely be grown on the nonpayment acres will strongly influence actual income under this option.

--CCC Outlays.

CCC Outlay Savings (Million Dollars)

FY1990	FY1991	FY1992	FY1993	FY1994	Total
810	1,580	2,420	2,280	1,710	8,800

- Alternative program. Producers would be allowed to plant any crop on the nonpayment permitted acres. This would provide producers more flexibility and would likely result in slightly smaller plantings of program crops and soybeans. This would increase program savings. Income from nonprogram crops, such as dry beans, sugar beets, alfalfa, etc., which might be planted on the nonpayment acres could be affected by this alternative depending on the balance between production increases and market conditions for these crops.

RESTRICT ELIGIBILITY FOR PRICE SUPPORT PROGRAM BENEFITS AND REDUCE PAYMENT LIMITATION

CBO Option (AGR-06)

- This option would lower the $50,000 direct payment limitation to $40,000 per year and would permit each farm operator to receive payments as only one entity.

- CBO projects 5-year cost savings of about $2 billion.

USDA Comments

- Under current law, participants may receive deficiency payments directly of up to $50,000 as an individual and indirectly of up to $25,000 as a 50-percent shareholder in no more than two corporate entities.

- Results of the recently enacted payment limitation rules are yet to be determined. However, effectively implementing the payment limitation provisions in the past has proven to be elusive for the following reasons:

  1) producers have proven to be very innovative in reorganizing their farming operations to minimize payment reductions.

  2) producers may opt to cash rent part of their farming operation to maximize returns to their total farming operations.

- To the extent producers are able to circumvent payment limitation rules, these payments are capitalized into cash rents and land values.

- Estimating savings on payment limitations or other payment targeting schemes is difficult. However, USDA would estimate savings under this program to range from $.75 - $1.0 billion over the 5-year period.

ESTABLISH A 2-PERCENT ORIGINATION FEE FOR CCC NONRECOURSE LOANS

CBO Option (AGR-05)

- Imposition of a 2-percent origination fee on nonrecourse price support loans would save about $0.8 billion over the 5-year period (FY 1990-1994) according to CBO.
- CBO assumes 2-percent fee would go into effect at the beginning of FY 1990.
- CCC outlays are estimated by CBO to fall by:

FY1990	FY1991	FY1992	FY1993	FY1994	Total
		Mil. $			
180	180	160	160	150	830

USDA Comments

- If the 2-percent origination fee is imposed beginning with the 1990/91 crops, USDA estimates savings of:

FY1990	FY1991	FY1992	FY1993	FY1994	Total
		Mil. $			
8	160	150	140	120	578

- CBO savings are likely overstated for two reasons:
  1) to be equitable this program should begin on a crop year basis and since some 1989-crop loans are placed in FY 1989, savings from those commodities would not be available in FY 1990; and
  2) such a high loan service fee will likely reduce loan placements, especially for wheat, feed grains, soybeans, and tobacco. Since market prices are well above loan rates, net lending costs are expected to be the same.
- A 2-percent loan origination fee would, in most cases, more than offset total loan administration costs.
- Receipts from the current service fee schedule are not considered in the CBO analysis, and will likely total about $5-$10 million annually.
- USDA would estimate savings to be about $578 million over the 5-year period, $250 million below the CBO estimate. Most of the fees would be paid by corn, cotton, rice, and sugar producers.
- Current loan service fees are not included in CCC net outlay projections. For many years, loan service fees have been part of the funds available to the ASCS salaries and expense account and to offset CCC losses on loans. These fees are specifically separated from CCC outlay calculations so as not to jeopardize the ability of ASCS to effectively operate the farm programs.

- CCC could potentially lose the ability to use the existing loan service fees for funding certain activities under the CBO proposal.

- USDA analysis assumes that the 2-percent loan origination fee would be applied to producers who elected to take loan deficiency payments or to use a purchase agreement in lieu of a loan.

2-Percent Loan Fee: Change in CCC Net Outlays

Commodity	Fiscal Year 1990	1991	1992	1993	1994	Total
	mil $					
Feed Grains 1/	1	60	52	52	35	200
Wheat	1	2	3	3	3	12
Rice	4	21	23	22	22	92
Upland Cotton	0	35	28	22	20	105
Soybeans	0	15	17	15	14	61
Peanuts	2/	2/	2/	2/	2/	0
Tobacco	1	3	3	2	3	12
Honey	1	2	2	2	2	9
Sugar	0	22	22	22	21	87
Dairy	0	0	0	0	0	0
Wool	0	0	0	0	0	0
Other Commodities 3/	0	0	0	0	0	0
Total Commodities	8	160	150	140	120	578
1/ Corn	1	58	51	51	35	196
Sorghum	0	2	1	1	0	4
Barley	0	0	0	0	0	0
Oats	0	0	0	0	0	0

2/ Less than $1 million.

3/ Includes ELS Cotton

Cut Dairy Price Support Program Costs by Requiring Producer Contributions

CBO Option (AGR 09)

- Dairy farmers would be assessed from about 25 cents to 15 cents per hundredweight (cwt.) of milk produced.
- CBO estimates budget savings as follows:

FY	1990	1991	1992	1993	1994	Cumulative 5-yearSavings
Rate of Assessment (cents/cwt.)	25.9	19.3	18.7	18.1	15.7	
Savings (Mil $)	380	290	280	270	250	1,470

- CBO indicates that there is a precedent for such actions in the form of previous assessments--the most recent being 2.5 cents per cwt. in 1988, required by the Omnibus Budget Reconciliation Act of 1987.

USDA Comments

- CBO's savings estimate is a reasonable estimate of revenues which would be collected. However, it omits modest additional savings resulting from lower milk production and, therefore, lower CCC purchases as producers responded to the lower effective price received by farmers.
- Assessments should be in even-cent increments for administrative feasibility and should be based on marketings, not production. A case could be made for starting with a higher assessment and lowering it in later years when the support price has been reduced.
- USDA estimates of savings based on USDA baseline would range from $1.3 billion with a 15-cent assessment, to $1.7 billion with a 20-cent assessment, to $2.1 billion with a 25-cent assessment over the FY 1990-94 period when compared with projected program costs under current law.
- Assessments on producers are direct, fairly easy to collect, and result in actual dollar budgetary savings--regardless of CCC purchase levels. However, there is an additional administrative cost incurred in collecting the assessments.

CBO OPTION 9: DAIRY ASSESSMENT

Five Year Impact of Marketing Assessment

Assessment (per 100 lbs.)	$0.00	$0.15	$0.20	$0.25
Marketings (Bil Lbs)				
Fiscal Year				
1990	146.3	146.0	145.9	145.8
1991	148.8	148.5	148.4	148.3
1992	150.3	150.0	149.9	149.8
1993	151.3	151.0	150.9	150.8
1994	153.3	153.0	152.9	152.8
Five year total	750.0	748.5	748.0	747.5
Assessment revenue ($M)	$0.0	$1,122.8	$1,496.0	$1,868.8
CCC purchases (Bil Lbs)				
Fiscal Year				
1990	7.8	7.5	7.4	7.3
1991	7.3	7.0	6.9	6.8
1992	5.8	5.5	5.4	5.3
1993	4.3	4.0	3.9	3.8
1994	4.8	4.5	4.4	4.3
Five year total	30.0	28.5	28.0	27.5
Savings from reduced purchases ($M)				
Fiscal Year				
1990	$0.0	$27.1	$36.2	$45.3
1991	$0.0	$28.1	$37.4	$46.8
1992	$0.0	$29.5	$39.3	$49.2
1993	$0.0	$32.3	$43.1	$53.9
1994	$0.0	$32.4	$43.2	$54.0
Five year total	$0.0	$149.4	$199.2	$249.0
TOTAL SAVINGS	$0.0	$1,272.2	$1,695.2	$2,117.8

ASCS/CAD/D&SG
FYHISTORY/3-9-89

Eliminate the Export Enhancement Program

CBO Option(AGR-07)

- As a budget reduction option, the CBO has identified the EEP for elimination at the end of fiscal year 1989. CBO estimates budget savings of $1.97 billion over FYs 1990-94.
- CBO has raised the issues of whether the EEP has displaced other sales, has been targeted, and notes that the biggest beneficiaries are the Soviet Union and China and that the elimination of the EEP would deprive U.S. negotiators of a useful bargaining chip.

USDA Comments

- Under the EEP, exporters are given commodity certificates that can be exchanged for CCC-owned commodities. These certificates enable exporters to sell selected U.S. farm products in targeted markets at competitive prices. In effect, commodity certificates are in-kind export subsidies that reduce the prices paid by foreign buyers and increase U.S. exports.
- USDA analysis of the 1990-1994 period indicates that elimination of the EEP is unlikely to reduce outlays. USDA estimates for the 1986-1988 wheat crop years indicate that the EEP was budget neutral on average and in fact, tended to reduce outlays. USDA questions the empirical basis for the CBO cost savings of $1.97 billion which implies that the EEP increases outlays by $0.65 for every $1.00 of commodity certificates.
- In and of itself, the issuance of a commodity certificate has no direct outlay effect. The only direct budget effect is an increase in CCC realized losses from the disposition of CCC assets without corresponding sales receipts.
- Whether the EEP indirectly affects outlays depends on commodity market conditions and the responsiveness of exports to prices. CCC outlays that might be affected are inventory storage costs, deficiency payments, and commodity lending--regular and farmer-owned reserve loans made and repaid.
- The key to whether the EEP affects outlays is the degree to which exports increase relative to the quantity of CCC stocks that are exchanged for commodity certificates and added to market supplies. An increase in free stocks--stocks not owned by the CCC--reduces prices.

  --If additional exports fully absorb the CCC stocks that are added to free stocks, market prices increase because total supplies are reduced, and outlays decline.
  --If larger exports do not offset CCC stocks added to free stocks, prices may fall and increase deficiency payments and price support lending.

Targeted Export Assistance Program

CBO Option (AGR-08)

- The Targeted Export Assistance (TEA) program helps to finance sales promotion, advertising, and market development projects overseas for U.S. agricultural products, which are undertaken in response to various unfair foreign trade practices. Program participants are reimbursed with CCC commodity certificates for a portion of the expense of carrying out approved TEA projects.

- Unlike EEP, the issuance of commodity certificates as TEA payments indirectly results in CCC net outlays on a one-for-one basis. The program supports many non-program crops, for which additional exports do not reduce CCC program costs. Also, the program supports sales promotions and advertising, rather than additional commodity exports per se.

- As one of its budget reduction options, CBO has identified the TEA program as a candidate for elimination beginning in FY 1990. Over the period of FYs 1990-1994, CBO projects that this action will result in net outlay savings for CCC of $1.3 billion.

USDA Comments

- A reduction of $95 million in the FY 1990 program level for TEA was identified in the President's budget as one of the options to be considered for achieving savings in the cost of the commodity price and farm income support programs. If adopted, this option would result in a program level for TEA in FY 1990 of $200 million, unchanged from the FY 1989 level.

- As presently written, the Food Security Act of 1985 mandates a program level for TEA of $325 million in FY 1990. However, the USDA baseline for CCC spending provides for a TEA program level of $295 million in FY 1990. This reflects a proposal submitted with the FY 1989 President's budget that the program would be reduced by $30 million each year.

- No savings in the TEA program in FY 1991 and beyond are possible under the USDA baseline. The Food Security Act mandate for the TEA program expires at the end of FY 1990, and the USDA baseline assumes no program beyond FY 1990.

- Adoption of the CBO option for elimination of the TEA program would result in savings for CCC of $295 million in FY 1990 under the USDA baseline, but no savings can be achieved in the "outyears" of FYs 1991 to 1994.

Reduce Crop Insurance Subsidies

CBO Option (AGR-10 (a) and 10 (b)

- About 300,000 farmers carried crop insurance in 1988 with a total coverage of about 50 million insured acres. Average annual federal costs for the program include $200 million in administrative and operating expenses, $100 million in premium subsidy, and $200 million for indemnities in excess of total premium. Total premium includes $100 million in premium subsidy and $300 million in farmer paid premium.

- CBO estimates total savings of $0.7 billion over five years from phasing out the premium subsidy, and savings of $1.1 billion from phasing out both premium subsidy and federal support for administrative and operating expenses.

- FCIC outlays are estimated by CBO to fall by ($ millions):

	1990	1991	1992	1993	1994	Cumulative five-years
Phaseout premium subsidy	10	70	130	200	300	710
Phaseout premium and administrative subsidy	10	100	200	320	480	1,110

USDA Comments:

- The CBO phase-out option is consistent with proposals by the Reagan Administration to privatize the program. The CBO and current services baselines are approximately the same and the outlay savings estimated from phasing out premium subsidy and administrative expenses are reasonable.

- The CBO estimates assume the phase-out of revolving fund outlays, which include premium subsidy and net indemnity losses, would substantially reduce program participation.

- Current participation totals about 50 million acres. Average farmer-paid premium is $6 per acre. If the premium subsidy is phased out farmer paid premium rises to $8 per acre. If premium subsidy and administrative expenses are included in farmer paid premium, the cost increases to $12 per acre. If premium subsidy, administrative expense, and excess loss are all included in farmer paid premium, cost increases to $16 per acre.

- The Reagan Administration did not include the proposal to privatize the program in either the 1989 or the 1990 budgets. The Administration supported legislation in 1988 that created the Commission to improve the crop insurance program. Reports of the Commission are due this summer.

The **Chairman**. Thank you. Senator Heflin.

Senator **Heflin**. I am listening.

The **Chairman**. I would note that when we start the Southern swing, the first date that we are going to hold hearings, on Monday—we will actually be there Sunday evening—will be in Alabama with Senator Heflin.

We will also go to Arkansas, then Missouri and Mississippi. In those four States, with the help of Senator Heflin, they have arranged a simultaneous translator for me. [Laughter.]

So somebody will slow down whatever I am saying, and translate in such a way we can understand.

Senator **Heflin**. Slowness will not help. [Laughter.]

The **Chairman**. Might the content improve it? As I said, one of the other States we will hold a hearing in will be Arkansas. It is purely coincidental that these hearings will be in the States of Members, but that is only because it helps in logistics.

David, did you have anything you wanted to say before we start with the Secretary?

Senator **Pryor**. No, thank you. I am just proud that you are here, Mr. Secretary.

Secretary **Yeutter**. Thanks, Dave.

The **Chairman**. I ask unanimous consent that the opening statement of Senator Pryor be placed in the record, as well as his questions.

[See pages 141 to 143 for questions submitted by Senator Pryor and responses by Secretary Yeutter.]

[The prepared statements of Senators Pryor, Conrad, with attachments, Cochran, McConnell, Bond, and Wilson, with an attachment, follow:]

PREPARED STATEMENT OF HON. DAVID H. PRYOR, A U.S. SENATOR FROM ARKANSAS

I wish to thank the distinguished chairman from Vermont for scheduling this hearing at such a timely date, as we signal to our farmers, the Congress, and all interested parties around the world that we are once again preparing to draft another U.S. farm bill.

I also want to thank Secretary Yeutter for taking the time to be here with this committee. I look forward to hearing his views of the upcoming farm bill and especially its relation to the ongoing negotiations on the General Agreement on Tariffs and Trade. While each title, indeed, each provision of any farm bill legislation is extremely important, this year the primary importance is in the timing of the farm bill debate, and how it is connected to GATT. Frankly, I want to ensure that Congress exercises its obligation and duty to produce legislation without concern that any work we produce will be dictated to us from international agreements.

This is an excellent opportunity for all of us as we begin to define the route which U.S. agriculture is to take in the future. It is my fervent hope that Congress and the administration will work together in producing legislation that keeps our most important asset in mind—the American farmer.

PREPARED STATEMENT OF HON. KENT CONRAD, A U.S. SENATOR FROM NORTH DAKOTA

I want to thank Chairman Leahy for beginning the serious work of developing the 1990 farm bill. I understand that the chairman has also scheduled field hearings in several Southern States for next week and that the committee will be traveling to the Midwest in the near future. Farmers across the country appreciate the chairman's efforts to make sure their voices are heard. Those of us who work with Chairman Leahy on a day-to-day basis also appreciate his real efforts to understand and help farmers across the country.

I want to extend my welcome to Secretary Yeutter to these hearings—we appreciate your being here.

I had the opportunity to read Secretary Yeutter's testimony last night and I notice that he agrees with the statement that the 1990 farm bill will be written in Washington, D.C., not in Geneva, Switzerland.

I also read a copy of a facsimile transmission from the USDA's Office of Governmental and Public Affairs—Office of Public Liaison, Cameron Woods, Director. It contains the "Decoupling" proposal submitted by the United States at GATT. Since the cover letter is dated April 17, 1989, I assume that this is still the position of the United States at the Geneva talks.

Let me quote a few key phrases from the "Decoupling" proposal:

"The United States proposal would completely phase-out over 10 years all agricultural subsidies which directly or indirectly affect trade. Certain policies would be permitted . . . (1) direct income or other payments decoupled from production and marketing, . . . (2) bona-fide foreign and domestic aid programs."

The proposal continues several pages later:

"—Eligibility Criteria. Eligibility could be determined by a means test, based on a producer's income and wealth, or payments could be made across-the-board to all producers or by other criteria that did not stimulate production."

I assume that these payments are the "unlinked" "hardship" payments referred to by Ambassador Carla Hills before the House Committee on Ways and Means.

I am not sure how we reached this negotiating position, but once again the "Decoupling" proposal explains:

"Based on this experience, the United States reached the conclusion that a new direction in farm policy was required. The new direction is known as decoupling, and underlies the U.S. GATT proposal on agricultural reform."

I, to be honest, do not remember the debate that led to the United States reaching the conclusion that decoupling was the agricultural policy of the United States. None of the farm groups I have talked to remember that debate either. I know that I have only been in the Senate for 2 years and a few months, but I do read the papers and keep up with current events. I do recall that a decoupling proposal was defeated by a vote of the Senate. The fact is that no serious debate took place on our agricultural policy position at GATT. The whole GATT negotiating stance of the administration is a unilateral attempt to write the next farm bill behind closed doors. The "Decoupling" proposal makes clear that Congress will have one decision to make in the next farm bill—that is whether or not decoupled payments will be based on a means test.

I ask that the attached "Decoupling" proposal be made a part of the record. I also ask that a survey of farmers in the Midwest and Upper Midwest be made a part of the record. The survey, conducted by a St. Paul, MN, firm, found that 71 percent of farmers are opposed to decoupling while only 16 percent support decoupling.

I will have questions concerning the GATT negotiations and their affect on the 1990 farm bill later in this hearing. Thank you, Mr. Chairman.

[The Decoupling Information and National Agricultural Policy Poll, Data Tables, and National and State Maps follow:]

USDA
OFFICE OF GOVERNMENTAL AND PUBLIC AFFAIRS
OFFICE OF PUBLIC LIAISON

FAX TRANSMISSION REPORT:

TO: PARTICIPANTS OF TODAY'S BRIEFING ON AGRICULTURAL NEGOTIATIONS

FROM: CAMERON WOODS - DIRECTOR

DATE: 4/17/89

SUBJECT: DECOUPLING INFORMATION

(This transmission consists of 6 pages not including the cover sheet)

If there is a problem with the information you have received, please contact the Office of Public Liaison at (202) 447-2798. Our FAX number is (202) 475-3590.

04/17/89 15:42 ☎475 3580 USDA PUB LIAISON

United States
Department of
Agriculture

Office of
Governmental and
Public Affairs

Office of
Public
Liaison

Washington, D.C.
20250

April 17, 1989

TO: Participants of Today's Briefing on Agricultural Negotiations

Thank you again for participating in our briefing this morning.

One of the questions raised was on decoupling. Following is a copy of the text which the U.S. submitted on its decoupling proposal. I hope that you will find it of interest.

Sincerely,

Cameron Woods

CAMERON WOODS
Director

DECOUPLING: A NEW APPROACH TO AGRICULTURAL POLICY

INTRODUCTION

Agricultural sectors are under stress around the world. Symptoms appear as burdensome inventories, depressed commodity prices, high prices to domestic buyers, large government expenditures, and uneconomic patterns of global resource use. Several of these symptoms have led to increased government intervention as political leaders have attempted to lower the level of farm financial stress.

A key factor in deepening and prolonging global agricultural stress and stifling progress is agricultural policies. The current set of global agricultural policies have many worthy goals, including farm income improvement, price stabilization, food security, environmental protection, and economic development. These policies also have serious side effects: they slow the sectoral adjustments toward market and technological realities, distort farmers' incentives and consumers' choices, aggravate problems of agricultural resource use, raise consumer costs and create barriers to trade of farm and food products, both internally and internationally.

DECOUPLING AND AGRICULTURAL POLICY REFORM

To stimulate global agricultural improvement, the United States has proposed global policy reform negotiated within the GATT. The proposal would eliminate trade-distorting subsidies and import barriers, allowing market signals to reach consumers and producers alike. Policy reform would let the market balance demand and supply, thus reducing surplus production and the burden of agricultural subsidies.

The United States proposal would completely phase-out over 10 years all agricultural subsidies which directly or indirectly affect trade. Certain policies would be permitted--those that are production and trade neutral or have such a small effect as to be inconsequential. Permitted policies are of two types: (1) direct income or other payments decoupled from production and marketing, including those that provide a safety net against natural disaster or other extraordinary circumstances; and (2) bona-fide foreign and domestic aid programs.

An income support policy of decoupled payments unrelated to production and marketing would remove direct government influence from markets and let market signals reach producers and consumers. At the same time, a policy of decoupled payments would support farmers' incomes during the transition period in which market-distorting policies are eliminated. It could also be used to provide a safety net to agricultural producers.

THE EFFECTS OF CURRENT POLICIES

Current agricultural policies generally attempt to support farmers' incomes by supporting commodity prices (through import quotas, state marketing systems, inventory programs, supply controls, and various other interventions), by making direct payments based on price and/or production levels, or by subsidizing the price of inputs. Being coupled to production and price levels, these policies directly affect farmers' decisions at three levels:

(1) Decisions about marginal changes in the commodity mix or level of production and marketings--should a farmer produce an additional bushel of wheat?

(2) Decisions about investment in additional production capacity--should a farmer buy another tractor or bring new land into production? and

(3) Entry and exit decisions--should a farmer continue to farm or do something else?

By affecting farmers' decisions at all three levels, coupled programs influence production, consumption, and trade patterns, resource allocation, and farm structure.

Many countries, developed and developing, exporting and importing alike, have had extensive experience with coupled farm programs. The U.S. experience dating back to the 1930's illustrates the many problems countries face in using coupled price and income support programs. By raising the price (or lowering the cost) of each additional unit of production, U.S. farm programs encouraged U.S. farmers to expand production. To cope with the over production which resulted, limitations were placed on acreage. This led to more intensive cultivation, decreasing the effectiveness of acreage controls and raising environmental concerns. Furthermore, the expectation of continued support attracted new investment and resources to U.S. agriculture, further stimulating output. The result has been almost continuous overproduction and repeated accumulation of price-depressing inventories. Unfortunately, the U.S. is not alone in the use of coupled policies. These policies are being used around the world by developed and developing countries, importing and exporting countries-all with the same results. The key problem with coupled support programs in the United States is that they have led U.S. farmers to make decisions based on program subsidy advantages rather than on market prices.

After more than 50 years of experience with coupled farm programs, the United States found itself in the 1980's with burdensome stocks, record government spending, large acreages retired from production, farm financial stress, and growing concern about the equitable distribution of farm program benefits. While some of these problems may have eased, coupled farm programs remain inconsistent with a market-oriented agricultural sector. Based on this experience, the United States reached the conclusion that a new direction in farm policy was required. The new direction is known as decoupling, and underlies the U.S. GATT proposal on agricultural reform.

THE GOALS OF DECOUPLING

The main goal of decoupling is to break the link between agricultural support programs and farmers' production, investment, and marketing decisions. To achieve this goal a decoupled payment must be independent of the current and future level of a farmer's production and marketings, input use, or commodity prices. This means that if more, less, or none of the commodity is produced, or if prices are low or high, a decoupled payment will not vary.

Decoupled payments would allow countries to pursue agricultural income support objectives without distorting international markets. While the principal reason for decoupled payments may be to provide transitional income support for farmers, decoupled payments could also be used in the context of a safety net. Decoupled payments should aim only at providing a safety net to farmers and not continuing current levels of government support.

ACHIEVING PRODUCTION NEUTRALITY

Ideally, a decoupled payment would be completely production neutral. In practical terms, however, payments to farmers could still have some effect on production and farmers' entry/exit decisions. This will generally be the case if eligibility for decoupled payments requires continuing employment in agriculture or the ownership of agricultural resources. For example, consider a government program that offers a fixed annual payment to any individual proven to be a farmer. While the payment would have no direct effect on a farmer's decision to produce 20 hogs rather than 10 hogs, it would affect the decision to remain a farmer. Thus payments tied to the employment of resources in agriculture could hold or possibly attract resources to agriculture.

This in turn could affect farmers' entry and exit decisions. For example, an individual who preferred farming over other occupations might choose to use a payment to remain in farming. That is, low-income farmers might prefer to remain in farming, rather than absorb the costs of finding new employment. By affecting individuals' decisions to enter or leave farming, such payments may affect farm structure.

Even though such payments may not be completely neutral, they would let market signals have a much greater influence on farmers' production and marketing decisions. The result would be global production and trade patterns based on comparative advantage and efficient resource use.

IMPLEMENTING DECOUPLED PROGRAMS

Decoupled income support payments to farmers have three important dimensions. Each country would have to address these dimensions in deciding on the design of decoupled support programs:

-- Eligibility Criteria. Eligibility could be determined by a means test, based on a producer's income and wealth, or payments could be made across-the-board to all producers or by other criteria that did not stimulate production.

-- Payment level. Payments based on a safety-net concept of minimum income support should neither attract additional resources to agriculture nor stimulate additional production, both of which should be functions of the market.

-- Program duration. Depending on the objective, decoupled payments could be made to a producer once or over a temporary period.

These dimensions of decoupling offer each country the flexibility to adopt its own approach to cutting the linkages between payments and production. Decoupled payments could be aimed at income support goals such as assisting farmers in a transition period. Or, on a one-time lump sum basis, decoupled payments could facilitate resource adjustment.

The potential market distortions created by a payment depend on these dimensions. In general, as both the program duration and level of payment increase, so will the potential for creating market and trade distortions. Similarly, the potential for distortions increases as the linkage between payments and resource ownership or employment strengthen.

Rockwood Research
1751 West County Road B • St. Paul, MN 55113 • 612-631-1977 • FAX 612-631-8198
MARKETING RESEARCH IN AGRICULTURE

NATIONAL AGRICULTURAL POLICY POLL
Data Tables
National and State Maps

November 1988

Includes National Wheat Grower Opinions On:

New Federal Farm Legislation
- Supply Management
- Price Support Levels

International Farmer Cooperation
Federal Grain Standards

Nebraska Wheat Growers Association
P.O. Box 57
Ogallala, NE 69153

Nebraska Wheat Board
P.O. Box 94912
Lincoln, NE 68509

BACKGROUND AND METHODOLOGY

The objective of this National Agricultural Policy Poll is to ascertain wheat grower opinions on a national basis concerning critical aspects of future U.S. farm and trade policy.

To meet the objective. Rockwood Research. a marketing service of Farm Journal. Inc.. conducted telephone interviews of 649 wheat growers in the nation's major wheat producing states. Calls were made to the majority of the states between November 13 and 17 and to the Nebraska wheat farmers between October 4 and 18. The random interviews were completed using the exclusive FARMAIL data base which is the most up-to-date list of wheat growers in the nation. The states where producers were surveyed accounted for 80% of the nation's total wheat production in 1986 and 1987.

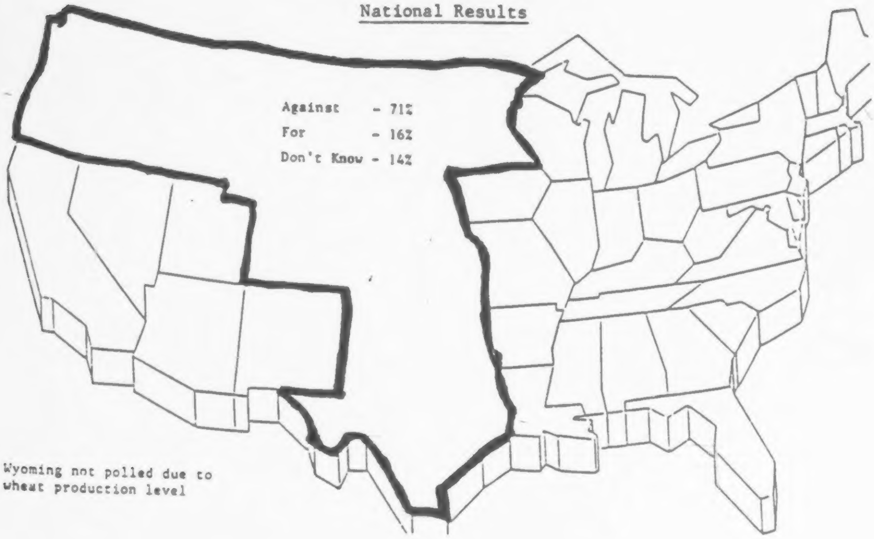
The questionnaire used in this study was a computer program written on Rockwood's Hewlett Packard System and Computers For Marketing Corporation (CFMC) software by a Rockwood Research spec writer. The data for this study was collected by using Rockwood's in-house. state-of-the-art interactive data-gathering system (CRT terminals).

All interviews were conducted from the centralized telephone facilities of Rockwood Research by professionally trained agricultural interviewers. All questionnaires were evaluated before inclusion in the data base for this study. A sample of all interviews was randomly monitored by supervisors to ensure that all work was accurately accomplished. The data was edited. processed and tabulated utilizing Rockwood's in-house data processing facilities specifically designed to handle market research projects.

Margin of Error: Given the sampling plan used. the number of interviews. and the method of selection. total sample results are accurate at a 95% confidence level with a margin of error no greater than approximately plus or minus 4.0%. This margin of error is associated with total sample results only.

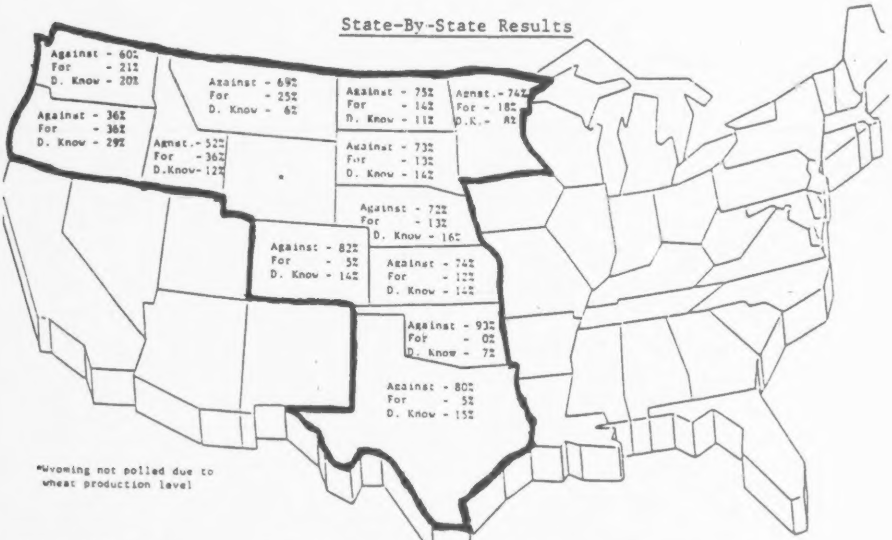
ARE YOU FOR OR AGAINST DECOUPLING FARM PROGRAMS?

National Results


Against - 71%
For - 16%
Don't Know - 14%

Wyoming not polled due to
wheat production level

State-By-State Results

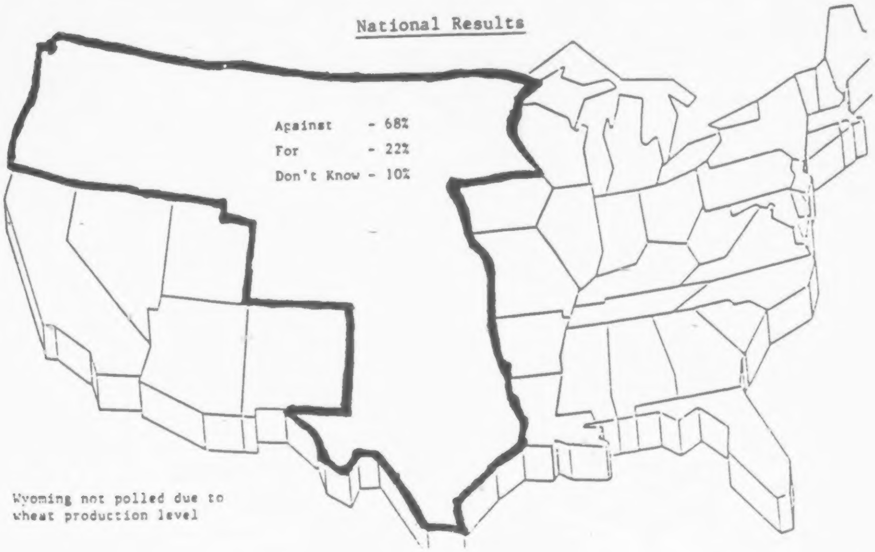

Against - 60%
For - 21%
D. Know - 20%
Against - 36%
For - 36%
D. Know - 29%
Agnst.- 52%
For - 36%
D.Know- 12%
Against - 69%
For - 25%
D. Know - 6%
Against - 75%
For - 14%
D. Know - 11%
Agnst.- 74%
For - 18%
D.K.- 8%
Against - 73%
For - 13%
D. Know - 14%
Against - 72%
For - 13%
D. Know - 16%
Against - 82%
For - 5%
D. Know - 14%
Against - 74%
For - 12%
D. Know - 14%
Against - 93%
For - 0%
D. Know - 7%
Against - 80%
For - 5%
D. Know - 15%

*Wyoming not polled due to
wheat production level

Area polled represents 80% of the entire nation's wheat production.
Totals may not equal 100% due to rounding.

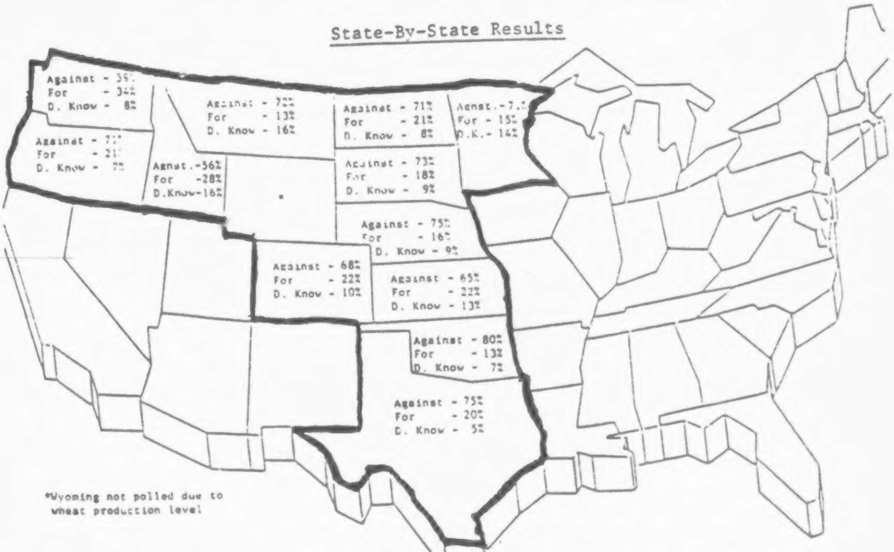
ARE YOU FOR OR AGAINST THE LOWERING OF PRICE SUPPORTS FOR WHEAT?

National Results


Against - 68%
For - 22%
Don't Know - 10%

Wyoming not polled due to wheat production level

State-By-State Results

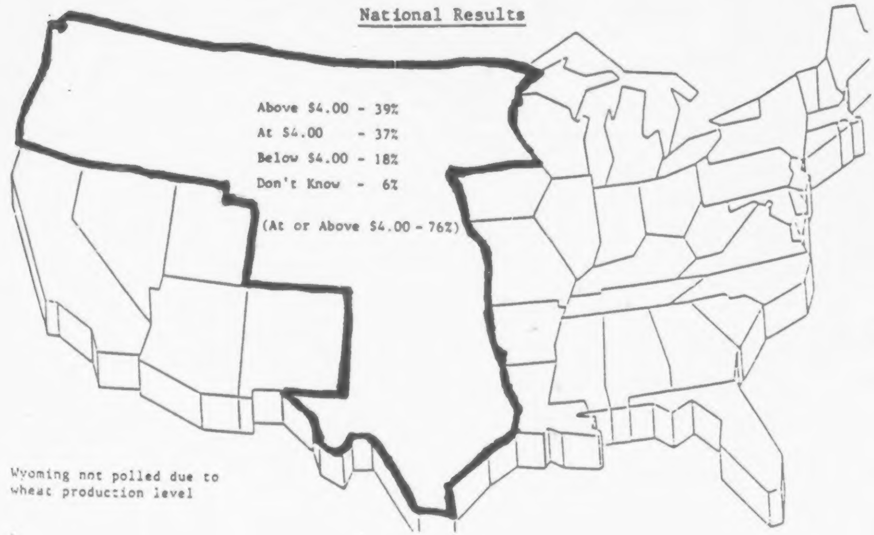

Against - 55%
For - 34%
D. Know - 8%
Against - 7[illegible]%
For - 21%
D. Know - 7%
Against - 72%
For - 13%
D. Know - 16%
Agnst.-56%
For -28%
D.Know-16%
Against - 71%
For - 21%
D. Know - 8%
Agnst.-7[illegible]%
For - 15%
D.K.- 14%
Against - 73%
For - 18%
D. Know - 9%
Against - 75%
For - 16%
D. Know - 9%
Against - 68%
For - 22%
D. Know - 10%
Against - 65%
For - 22%
D. Know - 13%
Against - 80%
For - 13%
D. Know - 7%
Against - 75%
For - 20%
D. Know - 5%

*Wyoming not polled due to wheat production level

Area polled represents 80% of the entire nation's wheat production.
Totals may not equal 100% due to rounding.

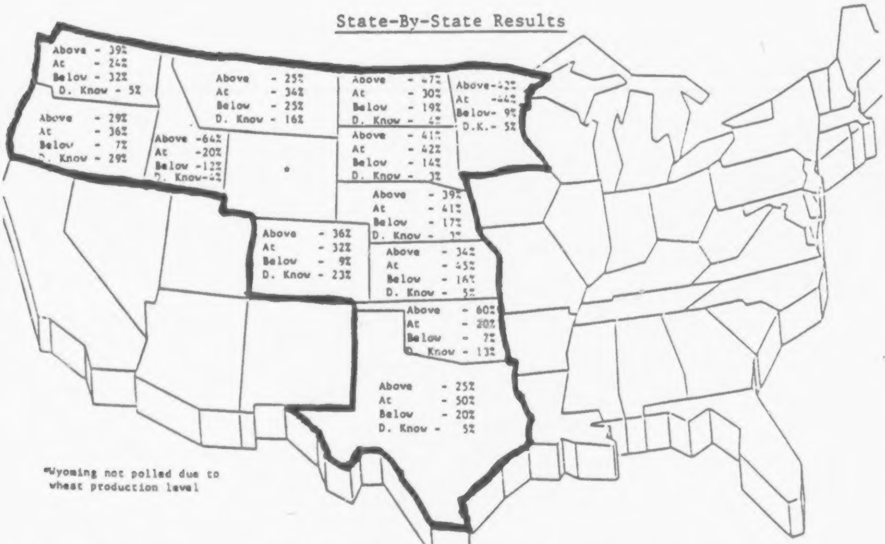
DO YOU WANT THE PRICE SUPPORT LOAN TO BE SET BELOW, AT, OR ABOVE $4.00 PER BUSHEL?

National Results


Above $4.00 - 39%
At $4.00 - 37%
Below $4.00 - 18%
Don't Know - 6%
(At or Above $4.00 - 76%)

Wyoming not polled due to wheat production level

State-By-State Results


Above - 39%
At - 24%
Below - 32%
D. Know - 5%
Above - 25%
At - 34%
Below - 25%
D. Know - 16%
Above - 47%
At - 30%
Below - 19%
D. Know - 4%
Above-42%
At -44%
Below- 9%
D.K.- 5%
Above - 29%
At - 36%
Below - 7%
D. Know - 29%
Above -64%
At -20%
Below -12%
D. Know-4%
*
Above - 41%
At - 42%
Below - 14%
D. Know - 3%
Above - 39%
At - 41%
Below - 17%
D. Know - 3%
Above - 36%
At - 32%
Below - 9%
D. Know - 23%
Above - 34%
At - 45%
Below - 16%
D. Know - 5%
Above - 60%
At - 20%
Below - 7%
D. Know - 13%
Above - 25%
At - 50%
Below - 20%
D. Know - 5%

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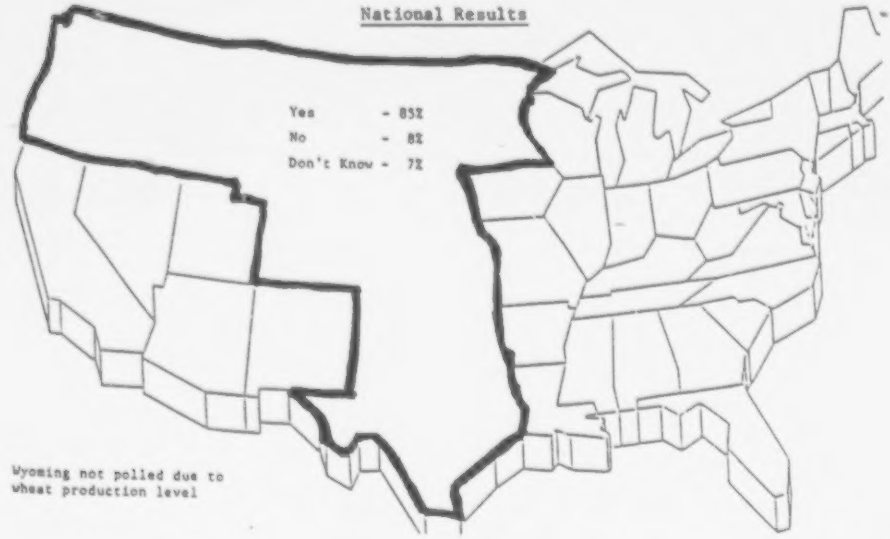
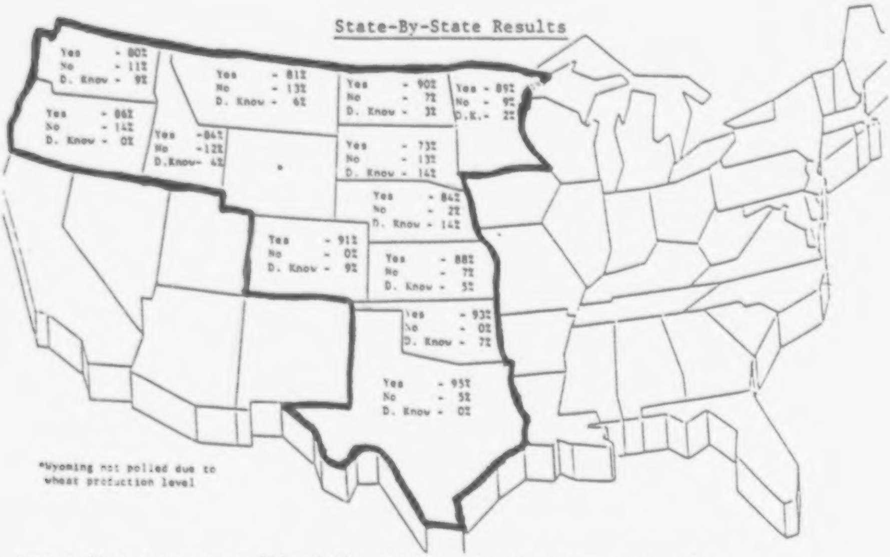
Totals may not equal 100% due to rounding.

SHOULD U.S. WHEAT PRODUCERS WORK TOGETHER THROUGH THE FARM PROGRAM TO BALANCE WHEAT PRODUCTION AND SUPPLY WITH THE REALISTIC DEMAND OF THE MARKETPLACE?


National Results
Yes - 83%
No - 8%
Don't Know - 7%

Wyoming not polled due to wheat production level


State-By-State Results
Yes - 80%
No - 11%
D. Know - 9%
Yes - 86%
No - 14%
D. Know - 0%
Yes - 84%
No - 12%
D.Know- 4%
Yes - 81%
No - 13%
D. Know - 6%
Yes - 90%
No - 7%
D. Know - 3%
Yes - 89%
No - 9%
D.K.- 2%
Yes - 73%
No - 13%
D. Know - 14%
Yes - 84%
No - 2%
D. Know - 14%
Yes - 91%
No - 0%
D. Know - 9%
Yes - 88%
No - 7%
D. Know - 5%
Yes - 93%
No - 0%
D. Know - 7%
Yes - 95%
No - 5%
D. Know - 0%

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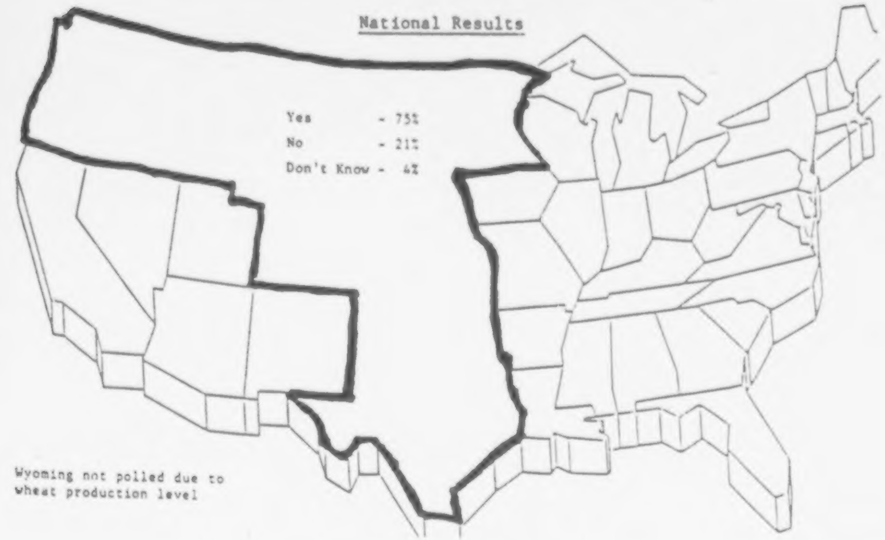
Totals may not equal 100% due to rounding.

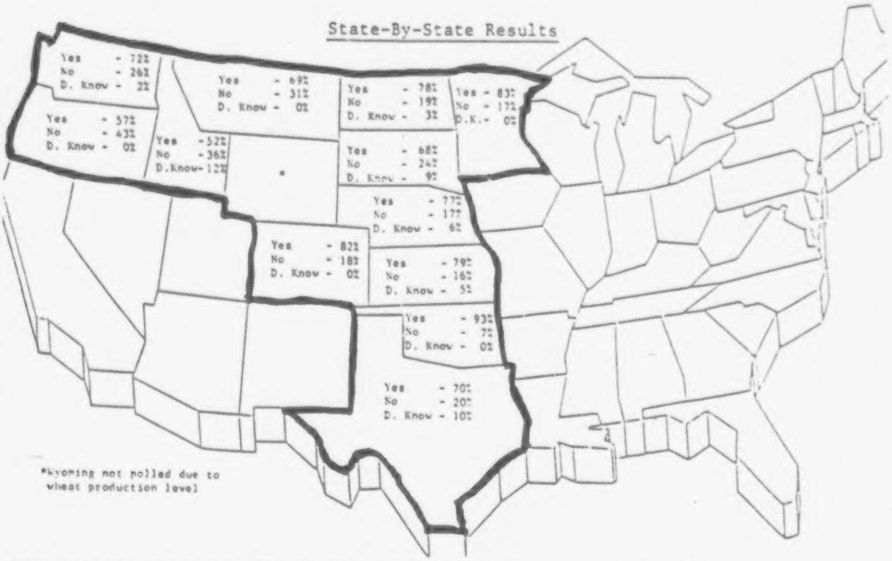
DO YOU SUPPORT ACREAGE REDUCTION OR SET ASIDE PROGRAMS AS A MEANS TO MANAGE WHEAT SUPPLY AND INCREASE WHEAT PRICES?

National Results


Yes - 75%
No - 21%
Don't Know - 4%

Wyoming not polled due to wheat production level

State-By-State Results


Yes - 72%
No - 26%
D. Know - 2%
Yes - 69%
No - 31%
D. Know - 0%
Yes - 78%
No - 19%
D. Know - 3%
Yes - 83%
No - 17%
D.K. - 0%
Yes - 57%
No - 43%
D. Know - 0%
Yes - 52%
No - 36%
D.Know - 12%
*
Yes - 68%
No - 24%
D. Know - 9%
Yes - 77%
No - 17%
D. Know - 6%
Yes - 82%
No - 18%
D. Know - 0%
Yes - 79%
No - 16%
D. Know - 5%
Yes - 93%
No - 7%
D. Know - 0%
Yes - 70%
No - 20%
D. Know - 10%

*Wyoming not polled due to wheat production level

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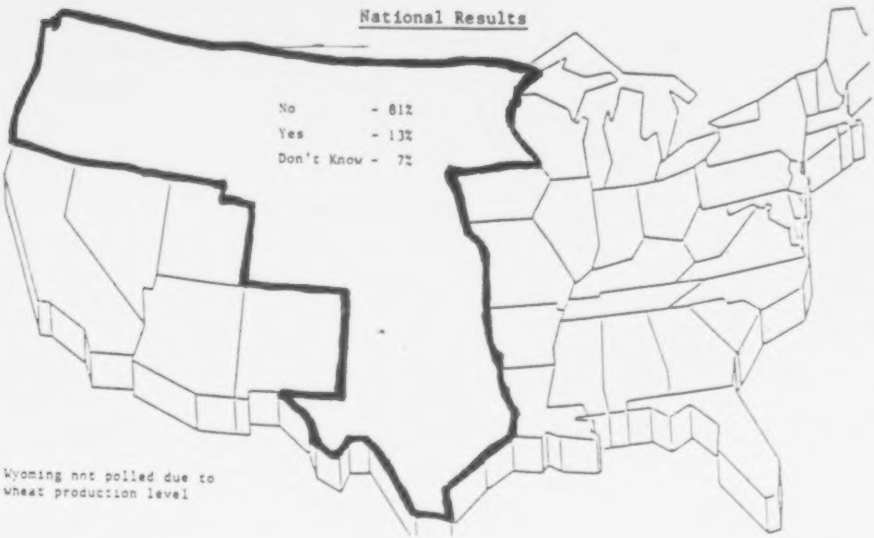
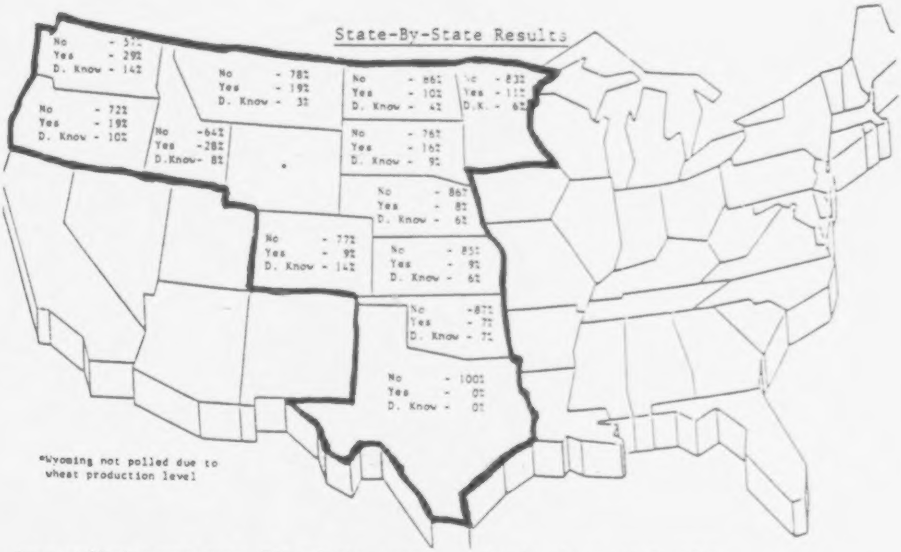
Totals may not equal 100% due to rounding.

SHOULD THE UNITED STATES HAVE "FENCE-ROW TO FENCE-ROW" WHEAT PRODUCTION?


National Results
No - 81%
Yes - 13%
Don't Know - 7%

Wyoming not polled due to wheat production level


State-By-State Results
No - 57%
Yes - 29%
D. Know - 14%
No - 72%
Yes - 19%
D. Know - 10%
No -64%
Yes -28%
D.Know- 8%
No - 78%
Yes - 19%
D. Know - 3%
No - 86%
Yes - 10%
D. Know - 4%
No - 83%
Yes - 11%
D.K. - 6%
No - 76%
Yes - 16%
D. Know - 9%
No - 86%
Yes - 8%
D. Know - 6%
No - 77%
Yes - 9%
D. Know - 14%
No - 85%
Yes - 9%
D. Know - 6%
No -87%
Yes - 7%
D. Know - 7%
No - 100%
Yes - 0%
D. Know - 0%

*Wyoming not polled due to wheat production level

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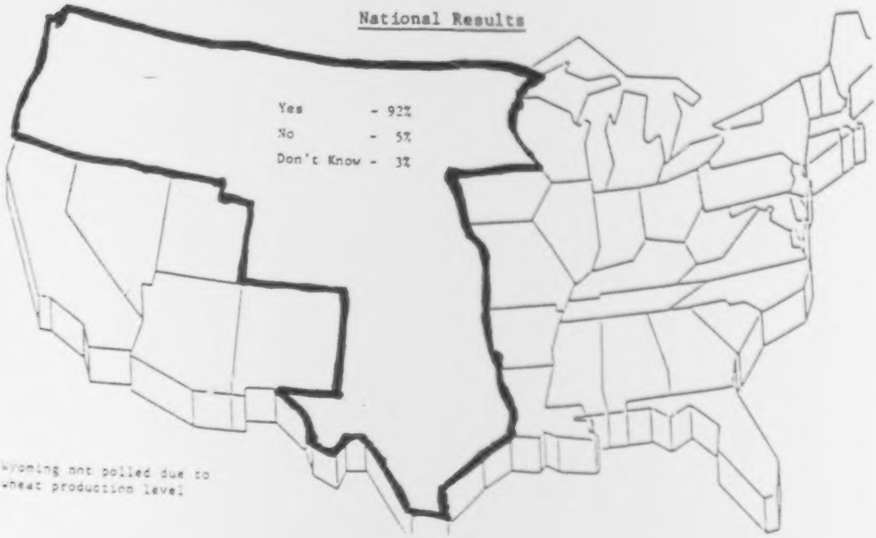
Totals may not equal 100% due to rounding.

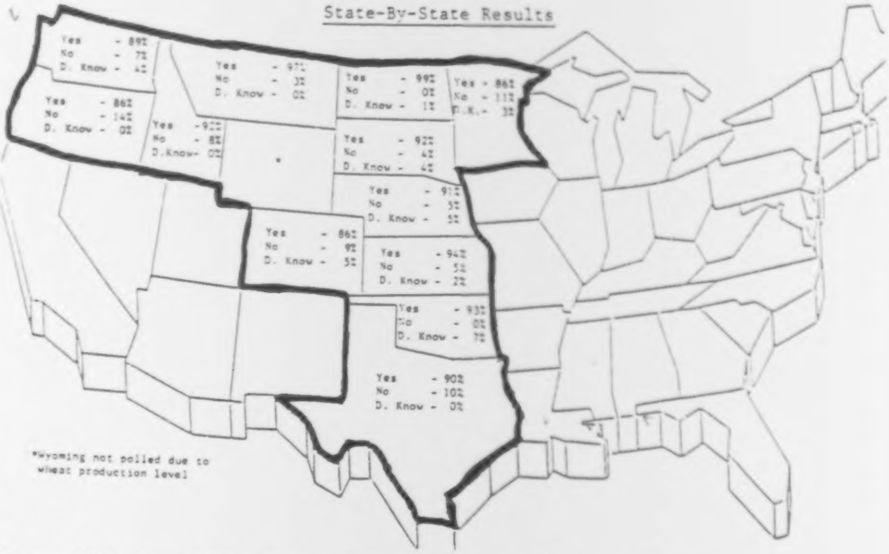
DO YOU SUPPORT A CHANGE IN U.S. GRAIN STANDARDS FOR WHEAT THAT REQUIRES U.S. WHEAT TO BE AT LEAST AS CLEAN AS CANADIAN AND AUSTRALIAN WHEAT THAT IS SOLD IN INTERNATIONAL TRADE?

National Results


Yes - 92%
No - 5%
Don't Know - 3%

Wyoming not polled due to wheat production level

State-By-State Results


Yes - 89%
No - 7%
D. Know - 4%
Yes - 86%
No - 14%
D. Know - 0%
Yes - 92%
No - 8%
D.Know- 0%
Yes - 97%
No - 3%
D. Know - 0%
*
Yes - 99%
No - 0%
D. Know - 1%
Yes - 86%
No - 11%
D.K.- 3%
Yes - 92%
No - 4%
D. Know - 4%
Yes - 91%
No - 5%
D. Know - 5%
Yes - 86%
No - 9%
D. Know - 5%
Yes - 94%
No - 5%
D. Know - 2%
Yes - 93%
No - 0%
D. Know - 7%
Yes - 90%
No - 10%
D. Know - 0%

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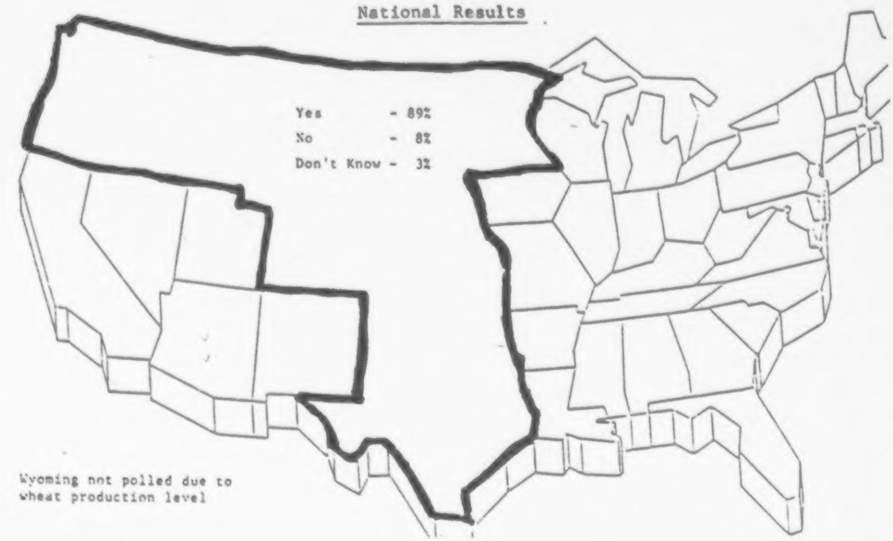
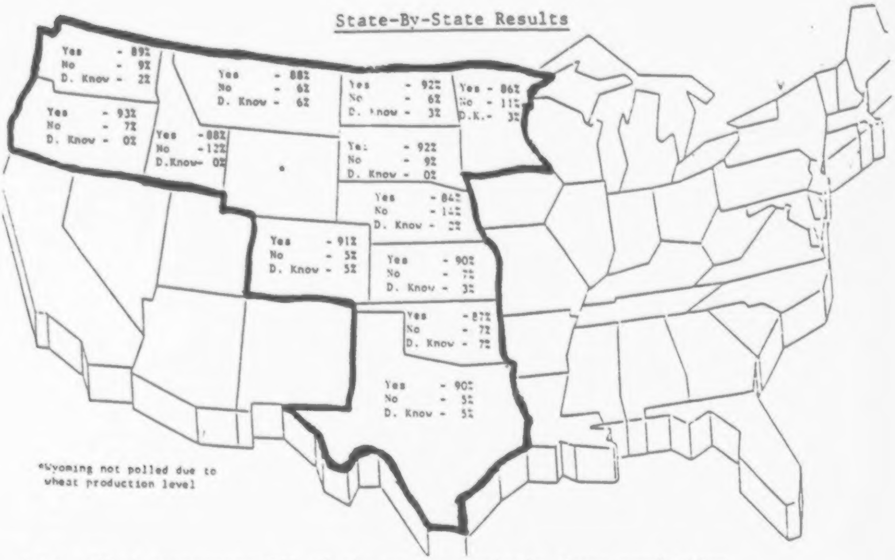
DO YOU BELIEVE THAT TIGHTER GRAIN STANDARDS, STRICTER GRADE REQUIREMENTS, AND CLEANER WHEAT WILL BENEFIT YOU AS A FARMER?

National Results


Yes - 89%
No - 8%
Don't Know - 3%

Wyoming not polled due to wheat production level

State-By-State Results


Yes - 89%
No - 9%
D. Know - 2%
Yes - 93%
No - 7%
D. Know - 0%
Yes - 88%
No - 12%
D.Know - 0%
Yes - 88%
No - 6%
D. Know - 6%
Yes - 92%
No - 6%
D. Know - 3%
Yes - 86%
No - 11%
D.K. - 3%
Yes - 92%
No - 9%
D. Know - 0%
Yes - 84%
No - 14%
D. Know - 2%
Yes - 91%
No - 5%
D. Know - 5%
Yes - 90%
No - 7%
D. Know - 3%
Yes - 87%
No - 7%
D. Know - 7%
Yes - 90%
No - 5%
D. Know - 5%

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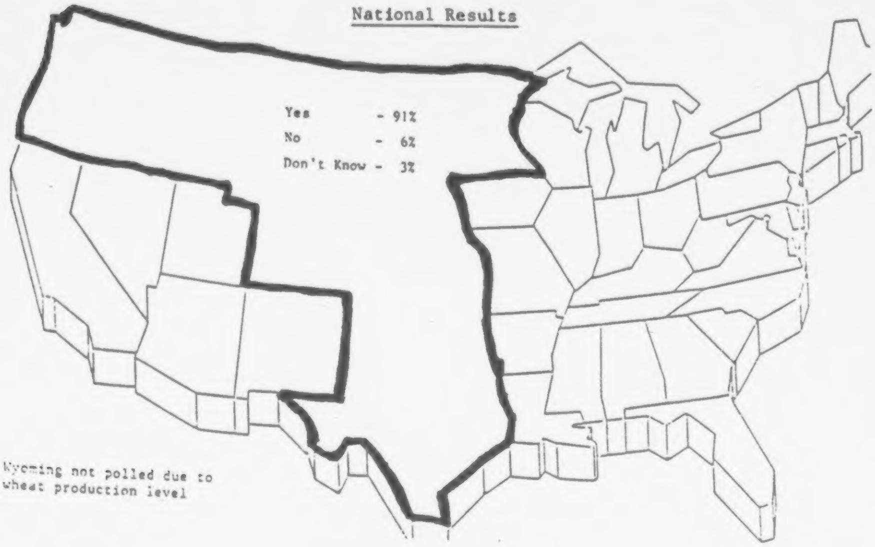
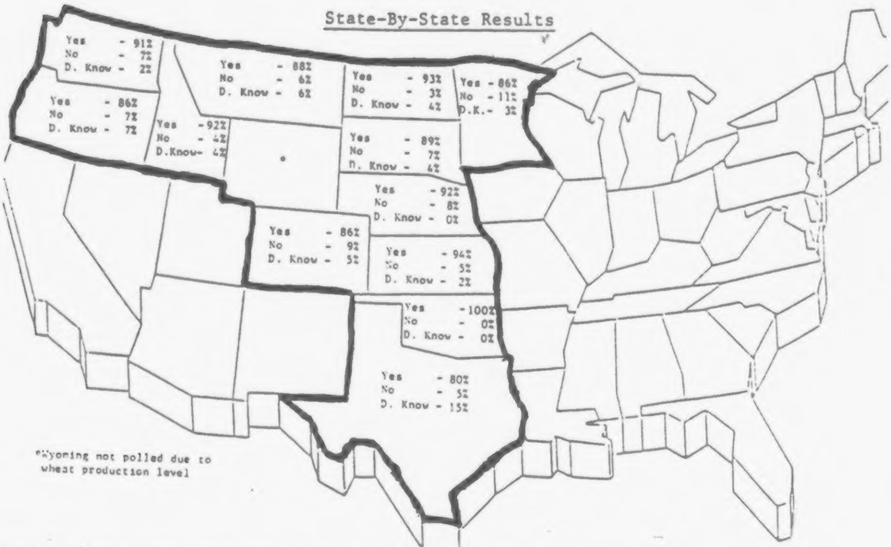
DO YOU BELIEVE THAT CLEANER GRAIN THROUGH TIGHTER GRAIN STANDARDS WILL MAKE THE U.S. MORE COMPETITIVE IN THE WORLD MARKET AND INCREASE U.S. EXPORTS?

National Results


Yes - 91%
No - 6%
Don't Know - 3%

Wyoming not polled due to wheat production level

State-By-State Results


Yes - 91%
No - 7%
D. Know - 2%
Yes - 88%
No - 6%
D. Know - 6%
Yes - 93%
No - 3%
D. Know - 4%
Yes - 86%
No - 11%
D.K. - 3%
Yes - 86%
No - 7%
D. Know - 7%
Yes - 92%
No - 4%
D.Know - 4%
*
Yes - 89%
No - 7%
D. Know - 4%
Yes - 92%
No - 8%
D. Know - 0%
Yes - 86%
No - 9%
D. Know - 5%
Yes - 94%
No - 5%
D. Know - 2%
Yes - 100%
No - 0%
D. Know - 0%
Yes - 80%
No - 5%
D. Know - 15%

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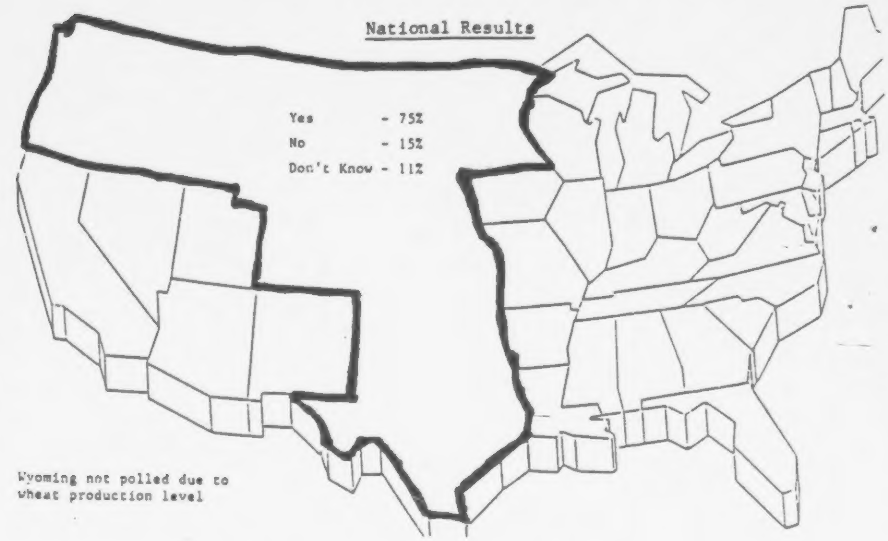
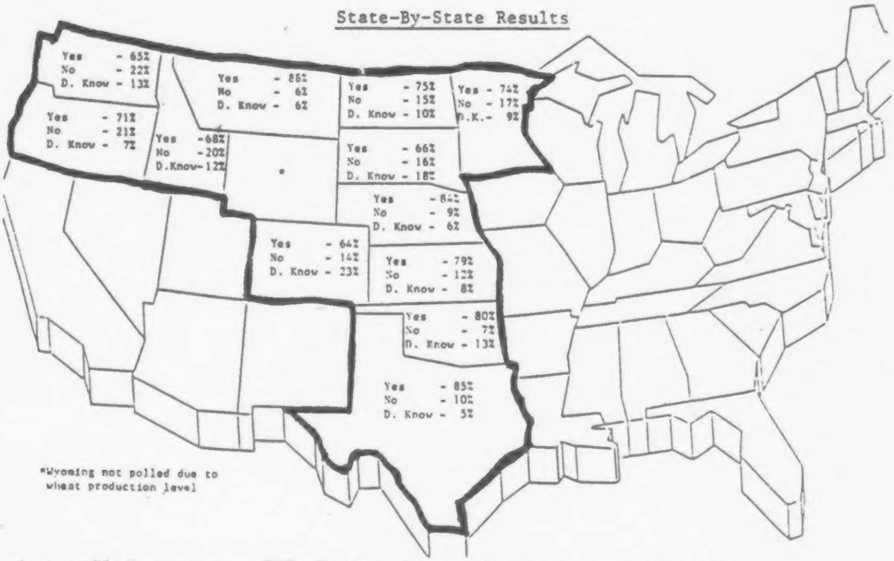
DO YOU BELIEVE THAT FOREIGN COUNTRIES SHOULD DESIGN THEIR OWN INTERNAL FARM POLICIES WITHOUT INTERFERENCE OR PRESSURE FROM THE UNITED STATES GOVERNMENT?



National Results

Yes - 75%
No - 15%
Don't Know - 11%

Wyoming not polled due to wheat production level



State-By-State Results

Yes - 65%
No - 22%
D. Know - 13%
Yes - 71%
No - 21%
D. Know - 7%
Yes - 68%
No - 20%
D.Know - 12%
Yes - 85%
No - 6%
D. Know - 6%
Yes - 75%
No - 15%
D. Know - 10%
Yes - 74%
No - 17%
D.K. - 9%
Yes - 66%
No - 16%
D. Know - 18%
Yes - 84%
No - 9%
D. Know - 6%
Yes - 64%
No - 14%
D. Know - 23%
Yes - 79%
No - 12%
D. Know - 8%
Yes - 80%
No - 7%
D. Know - 13%
Yes - 85%
No - 10%
D. Know - 5%
*

*Wyoming not polled due to wheat production level

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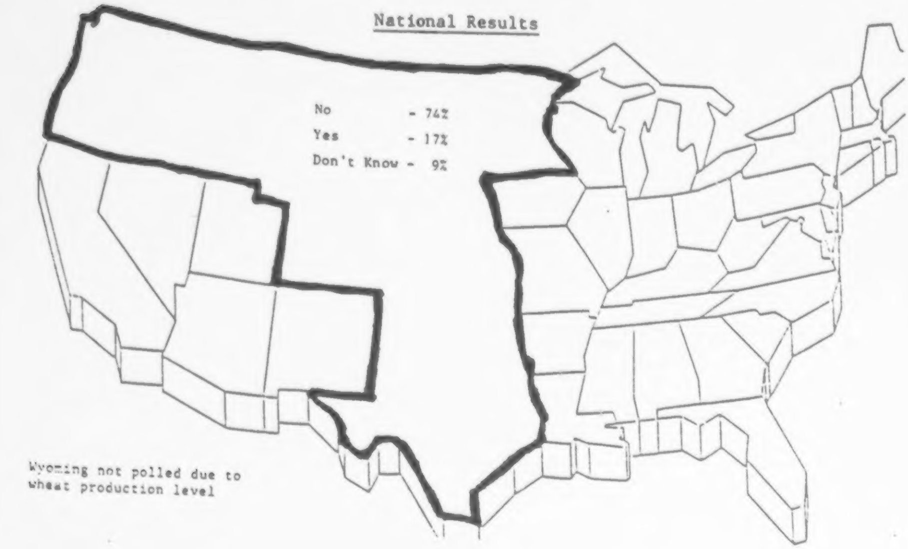
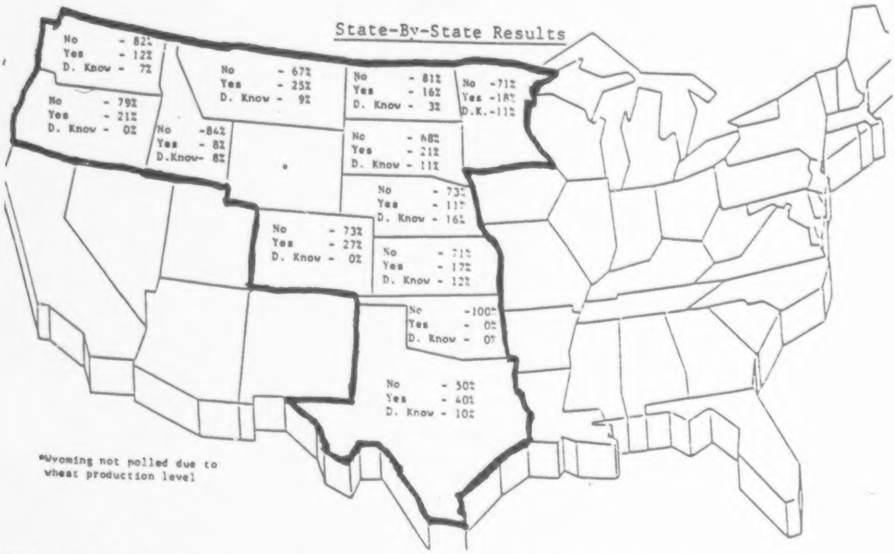
Totals may not equal 100% due to rounding.

DO YOU BELIEVE THAT FREE TRADE OR A FREE MARKET EXISTS TODAY WHERE THE INTERNATIONAL BUYING AND SELLING OF WHEAT IS CONCERNED?


National Results

No - 74%
Yes - 17%
Don't Know - 9%

Wyoming not polled due to wheat production level


State-By-State Results

No - 82%
Yes - 12%
D. Know - 7%
No - 79%
Yes - 21%
D. Know - 0%
No - 84%
Yes - 8%
D.Know- 8%
No - 67%
Yes - 25%
D. Know - 9%
No - 81%
Yes - 16%
D. Know - 3%
No -71%
Yes -18%
D.K.-11%
No - 68%
Yes - 21%
D. Know - 11%
No - 73%
Yes - 11%
D. Know - 16%
No - 73%
Yes - 27%
D. Know - 0%
No - 71%
Yes - 17%
D. Know - 12%
No -100%
Yes - 0%
D. Know - 0%
No - 50%
Yes - 40%
D. Know - 10%

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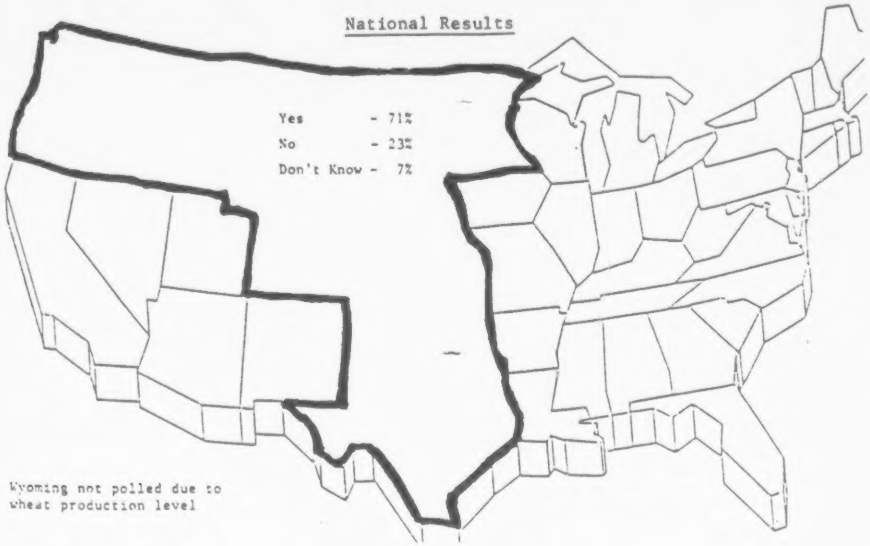
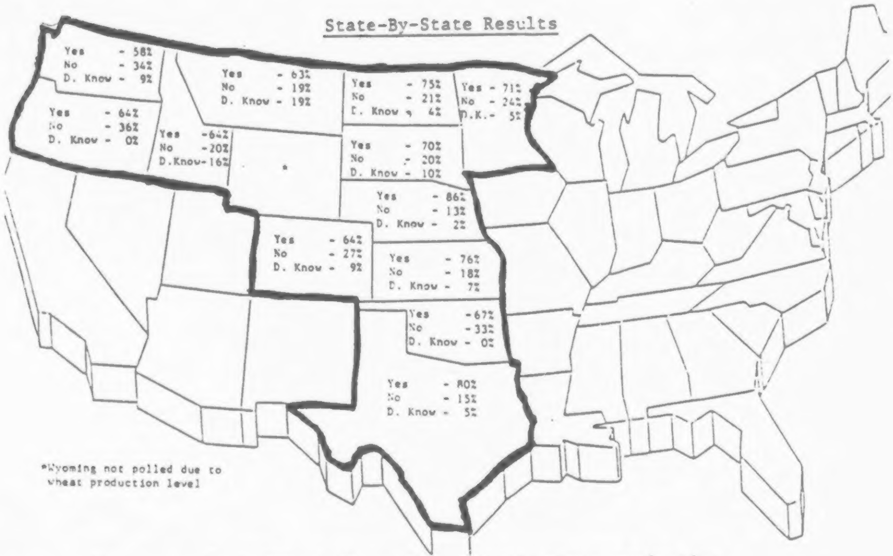
DO YOU BELIEVE THAT U.S. FARMERS SHOULD WORK TOGETHER WITH THE FARMERS OF OTHER COUNTRIES TO PERSUADE OUR GOVERNMENTS TO SUPPORT THE MARKET PRICE OF WHEAT UP TO AT LEAST $4.00 OR $5.00 PER BUSHEL?



National Results

Yes - 71%
No - 23%
Don't Know - 7%

Wyoming not polled due to wheat production level



State-By-State Results

Yes - 58%
No - 34%
D. Know - 9%
Yes - 63%
No - 19%
D. Know - 19%
Yes - 75%
No - 21%
D. Know - 4%
Yes - 71%
No - 24%
D.K.- 5%
Yes - 64%
No - 36%
D. Know - 0%
Yes -64%
No -20%
D.Know-16%
*
Yes - 70%
No - 20%
D. Know - 10%
Yes - 86%
No - 13%
D. Know - 2%
Yes - 64%
No - 27%
D. Know - 9%
Yes - 76%
No - 18%
D. Know - 7%
Yes -67%
No -33%
D. Know - 0%
Yes - 80%
No - 15%
D. Know - 5%

*Wyoming not polled due to wheat production level

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National Agricultural Policy Poll
#8332
November, 1988
LJS-MJ

Draft II

SERIAL ☐☐☐☐
1 2 3 4

NAME ______________________________

ADDRESS ______________________________

CITY ____________________ ZIP ________ STATE 1.9 ☐☐

TELEPHONE (____)______________________

INTERVIEWER ____________________ DATE ______

TIME IN ______ TIME OUT ______ EDITED BY ______

.5 Hello, this is ______________ and I'm calling from Rockwood Research in St. Paul, MN. We are conducting a survey with wheat growers and would like to include your opinions. This is not a sales call. It is strictly a poll designed to assess how you feel about some current issues facing wheat producers in the United States. Would this be a convenient time to ask you a few questions?

1 Yes......................**[CONTINUE]**
2 No......................**[ARRANGE CALLBACK]**

.9 Are you the primary decision maker concerning the operations of your farm?

1 Yes......................**[CONTINUE]**
2 No......................**[ASK TO SPEAK TO WHO IS]**

For classification purposes only, what county do you live in?

____

2. Are you a...**[READ LIST] [MULTIPLE RESPONSES ALLOWED]**

01 Owner operator
02 Landlord only
03 Renter or tenant only
04 Other (specify)______________2.1
05 **[DO NOT READ]** Don't know

3. Approximately how many total acres does your farm or ranch include?

☐☐☐☐☐

DK Don't know/Refused

4. How many of these acres are devoted to the production of wheat?

☐☐☐☐☐ DK Don't know/Refused

[RESPONDENT MUST HAVE PLANTED A MINIMUM OF 1 ACRE OF WHEAT IN 1988 TO CONTINUE. OTHERWISE, TERMINATE.]

Sir, policy makers need your input so they know what kind of a farm program and what level of price support you want for wheat in the next farm bill. I will review the wheat program that the USDA has introduced for 1989 and mention another idea called decoupling. Decoupling is designed to break the link and decouple the acreage and volume of wheat you produce from the income you receive from the farm program. Under the current farm program, the target price for wheat in 1989 will be $4.10 per bushel and there will be a 10% acreage reduction. The price support loan will be $2.06 per bushel.

If the decoupling farm program becomes law, the target price system will be done away with and the price support loan will drop to $1.60 per bushel for 1990 through 1995. What is being called an "equity payment" in the decoupling bill would be set at $1.35 for 1990 and could go down 10% per year to $.68 by 1995. A payment called a farm income payment would be made only if the U.S. Secretary of Agriculture determines that net farm income for producers in 1990 and 1991 would be less than under the old farm program. No such farm income payments would be made for 1993, 1994, and 1995. If decoupling becomes law, you would only have the $1.60 or lower price support and the equity payment which could drop below $1.00 per bushel for 1993, 1994, and 1995.

10. Are you for or against the decoupling concept that I have just described?

1 For
2 Against
3 Don't know/Undecided

11. Are you for or against the lowering of price supports for wheat?

1 For
2 Against
3 Don't know/Undecided

12. The market price is supported by the ASCS loan rate. Do you want that price support loan to be set below, at, or above $4.00 per bushel?

1 Below $4.00 per bushel
2 At $4.00 per bushel
3 Above $4.00 per bushel
4 Don't know

14. Should U.S. wheat producers work together through the farm program to balance wheat production and supply with the realistic demand of the marketplace?

1 Yes
2 No
3 Don't know

15. Do you support acreage reduction or set aside programs as a means to manage wheat supply and increase wheat prices?

1 Yes
2 No
3 Don't know

16. Should the United States have "fence-row to fence-row" wheat production?

1 Yes
2 No
3 Don't know

20. Do you support a change in U.S. grain standards for wheat that requires U.S. wheat to be at least as clean as Canadian and Australian wheat that is sold in international trade?

1 Yes
2 No
3 Don't know

21. Do you believe that tighter grain standards, stricter grade requirements, and cleaner wheat will benefit you as a farmer?

1 Yes
2 No
3 Don't know

22. Do you believe that cleaner grain through tighter grain standards will make the U.S. more competitive in the world market and increase U.S. exports?

1 Yes
2 No
3 Don't know

25. Do you believe that foreign countries should design their own internal farm policies without interference or pressure from the United States government?

1 Yes
2 No
3 Don't know

26. Some groups talk about "free trade" or a "free market." It is a textbook theory that means free competition and no government interference or control of trade anywhere. Whether or not you support the theory, do you believe that free trade or a free market exists today where the international buying and selling of wheat is concerned?

1 Yes
2 No
3 Don't know

27. And finally, do you believe that U.S. farmers should work together with the farmers of other countries to persuade our governments to support the market price of wheat up to at least $4.00 or $5.00 per bushel?

1 Yes
2 No
3 Don't know

THANK RESPONDENT AND END INTERVIEW

NATIONAL AGRICULTURAL POLICY POLL
NOVEMBER, 1988
8332

2 ARE YOU A.....

	NAT'L TOTAL	CO	ID	KS	MN	MT	NE	ND	OK	OR	SD	TX	WA	HRW	OTHER	<500 ACRES WHEAT	500+ ACRES WHEAT
TOTAL	649	22	25	155	66	32	64	73	15	14	71	20	92	379	270	400	249
NO ANSWER/NOT ASKED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NUMBER ANSWERING	649	22	25	155	66	32	64	73	15	14	71	20	92	379	270	400	249
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
OWNER OPERATOR	453	16	20	101	48	27	34	58	7	9	56	16	61	257	196	297	156
	69.8	72.7	80.0	65.2	72.7	84.4	53.1	79.5	46.7	64.3	78.9	80.0	66.3	67.8	72.6	74.3	62.7
OWN AND RENT	111	4	1	33	11	4	17	8	5	2	8	4	14	75	36	51	60
	17.1	18.2	4.0	21.3	16.7	12.5	26.6	11.0	33.3	14.3	11.3	20.0	15.2	19.8	13.3	12.8	24.1
RENTER OR TENANT ONLY	72	2	3	19	6	1	10	5	3	3	7	-	13	42	30	42	30
	11.1	9.1	12.0	12.3	9.1	3.1	15.6	6.8	20.0	21.4	9.9		14.1	11.1	11.1	10.5	12.0
LANDLORD ONLY	12	-	1	2	1	-	3	1	-	-	-	-	4	5	7	9	3
	1.8		4.0	1.3	1.5		4.7	1.4					4.3	1.3	2.6	2.3	1.2
DON'T KNOW	1	-	-	-	-	-	-	1	-	-	-	-	-	-	1	1	-
	.2							1.4							.4	.3	

NATIONAL AGRICULTURAL POLICY POLL
NOVEMBER, 1988
8332

3 APPROXIMATELY HOW MANY TOTAL ACRES DOES YOUR FARM OR RANCH INCLUDE?

	NAT'L TOTAL	CO	ID	KS	MN	MT	NE	ND	OK	OR	SD	TX	WA	HRW	OTHER	<500 ACRES WHEAT	500+ ACRES WHEAT
TOTAL	649	22	25	155	66	32	64	73	15	14	71	20	92	379	270	400	249
NO ANSWER/NOT ASKED	5	-	-	-	-	-	1	-	-	2	-	-	2	1	4	2	3
NUMBER ANSWERING	644	22	25	155	66	32	63	73	15	12	71	20	90	378	266	398	246
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
SUM	1054501	78870	21197	168086	59431	123360	94390	114477	22470	17370	128990	27225	198635	643391	411110	418807	635694
MINIMUM	1	500	40	65	60	100	40	300	170	240	40	120	1	40	1	1	300
MAXIMUM	30000	6950	2500	6000	3800	30000	6100	5800	5400	7000	10000	4000	18000	30000	18000	30000	18000
MEAN	1637	3585	848	1084	900	3855	1498	1568	1498	1448	1817	1361	2207	1702	1546	1052	2584
STANDARD DEVIATION	2118	2195	839	1050	779	5319	1274	973	1369	1941	1881	1174	2990	2209	1982	1837	2203
STANDARD ERROR	83	468	168	84	96	940	160	114	353	560	223	262	315	114	122	92	140
MEDIAN	1000	4000	320	800	650	2650	1050	1300	1200	500	1280	1100	1000	1100	1000	700	2000

3 APPROXIMATELY HOW MANY TOTAL ACRES DOES YOUR FARM OR RANCH INCLUDE?

	NAT'L TOTAL	CO	ID	KS	MN	MT	NE	ND	OK	OR	SD	TX	WA	HRW	OTHER	<500 ACRES WHEAT	500+ ACRES WHEAT
TOTAL	649	22	25	155	66	32	64	73	15	14	71	20	92	379	270	400	249
NO ANSWER/NOT ASKED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NUMBER ANSWERING	649 100.0	22 100.0	25 100.0	155 100.0	66 100.0	32 100.0	64 100.0	73 100.0	15 100.0	14 100.0	71 100.0	20 100.0	92 100.0	379 100.0	270 100.0	400 100.0	249 100.0
1 - 500 ACRES	161 24.8	1 4.5	14 56.0	55 35.5	26 39.4	3 9.4	11 17.2	4 5.5	4 26.7	6 42.9	11 15.5	7 35.0	19 20.7	92 24.3	69 25.6	157 39.3	4 1.6
501 - 1000 ACRES	168 25.9	4 18.2	3 12.0	46 29.7	21 31.8	4 12.5	20 31.3	22 30.1	2 13.3	1 7.1	17 23.9	2 10.0	26 28.3	95 25.1	73 27.0	126 31.5	42 16.9
1001 - 1999 ACRES	142 21.9	2 9.1	4 16.0	32 20.6	9 13.6	3 9.4	13 20.3	26 35.6	5 33.3	2 14.3	21 29.6	6 30.0	19 20.7	82 21.6	60 22.2	73 18.3	69 27.7
2000 OR MORE ACRES	173 26.7	15 68.2	4 16.0	22 14.2	10 15.2	22 68.8	19 29.7	21 28.8	4 26.7	3 21.4	22 31.0	5 25.0	26 28.3	109 28.8	64 23.7	42 10.5	131 52.6
DON'T KNOW	5 .8	-	-	-	-	-	1 1.6	-	-	2 14.3	-	-	2 2.2	1 .3	4 1.5	2 .5	3 1.2

4 HOW MANY OF THESE ACRES ARE DEVOTED TO THE PRODUCTION OF WHEAT?

	NAT'L TOTAL	CO	ID	KS	MN	MT	NE	ND	OK	OR	SD	TX	WA	HRW	OTHER	<500 ACRES WHEAT	500+ ACRES WHEAT
TOTAL	649	22	25	155	66	32	64	73	15	14	71	20	92	379	270	440	209
NO ANSWER/NOT ASKED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NUMBER ANSWERING	649 100.0	22 100.0	25 100.0	155 100.0	66 100.0	32 100.0	64 100.0	73 100.0	15 100.0	14 100.0	71 100.0	20 100.0	92 100.0	379 100.0	270 100.0	440 100.0	209 100.0
SUM	376372	38735	6660	51137	14277	31628	27441	40777	6124	16093	29278	7496	106726	191839	184533	74309	302063
MINIMUM	1	45	20	12	3	20	10	8	40	20	8	22	1	8	1	1	500
MAXIMUM	16000	6000	1200	2200	1300	3500	2400	2000	800	7000	8000	1400	16000	8000	16000	490	16000
MEAN	580	1761	266	330	216	988	429	559	408	1150	412	375	1160	506	683	169	1445
STANDARD DEVIATION	1155	1860	326	388	284	896	555	455	219	2012	996	418	2293	832	1490	127	1736
STANDARD ERROR	45	397	65	31	35	158	69	53	56	538	118	94	239	43	91	6	120
MEDIAN	250	1000	100	200	80	800	250	450	400	150	180	150	500	250	300	135	900

4 HOW MANY OF THESE ACRES ARE DEVOTED TO THE PRODUCTION OF WHEAT?

	NAT'L TOTAL	CO	ID	KS	MN	MT	NE	ND	OK	OR	SD	TX	WA	HRW	OTHER	<500 ACRES WHEAT	500+ ACRES WHEAT
	-----	--	--	--	--	--	--	--	--	--	--	--	--	---	-----	-----	-----
TOTAL	649	22	25	155	66	32	64	73	15	14	71	20	92	379	270	440	209
NO ANSWER/NOT ASKED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NUMBER ANSWERING	649 100.0	22 100.0	25 100.0	155 100.0	66 100.0	32 100.0	64 100.0	73 100.0	15 100.0	14 100.0	71 100.0	20 100.0	92 100.0	379 100.0	270 100.0	440 100.0	209 100.0
1 - 100 ACRES	193 29.7	1 4.5	14 56.0	48 31.0	38 57.6	6 18.8	17 26.6	8 11.0	1 6.7	4 28.6	28 39.4	7 35.0	21 22.8	108 28.5	85 31.5	193 43.9	-
101 - 300 ACRES	182 28.0	5 22.7	4 16.0	56 36.1	14 21.2	3 9.4	26 40.6	19 26.0	6 40.0	3 21.4	23 32.4	5 25.0	18 19.6	124 32.7	58 21.5	182 41.4	-
301 - 800 ACRES	161 24.8	4 18.2	5 20.0	34 21.9	11 16.7	8 25.0	13 20.3	32 43.8	8 53.3	3 21.4	12 16.9	4 20.0	27 29.3	83 21.9	78 28.9	65 14.8	96 45.9
MORE THAN 800 ACRES	113 17.4	12 54.5	2 8.0	17 11.0	3 4.5	15 46.9	8 12.5	14 19.2	-	4 28.6	8 11.3	4 20.0	26 28.3	64 16.9	49 18.1	-	113 54.1

NATIONAL AGRICULTURAL POLICY POLL
NOVEMBER, 1988
8332

SIR, POLICY MAKERS NEED YOUR INPUT SO THEY KNOW WHAT KIND OF A FARM PROGRAM AND WHAT LEVEL OF PRICE SUPPORT YOU WANT FOR WHEAT IN THE NEXT FARM BILL. I WILL REVIEW THE WHEAT PROGRAM THAT THE USDA HAS INTRODUCED FOR 1989 AND MENTION ANOTHER IDEA CALLED DECOUPLING. DECOUPLING IS DESIGNED TO BREAK THE LINK AND DECOUPLE THE ACREAGE AND VOLUME OF WHEAT YOU PRODUCE FROM THE INCOME YOU RECEIVE FROM THE FARM PROGRAM. UNDER THE CURRENT FARM PROGRAM, THE TARGET PRICE FOR WHEAT IN 1989 WILL BE $4.10 PER BUSHEL AND THERE WILL BE A 10% ACREAGE REDUCTION. THE PRICE SUPPORT LOAN WILL BE $2.06 PER BUSHEL.

IF THE DECOUPLING FARM PROGRAM BECOMES LAW, THE TARGET PRICE SYSTEM WILL BE DONE AWAY WITH AND THE PRICE SUPPORT LOAN WILL DROP TO $1.60 PER BUSHEL FOR 1990 THROUGH 1995. WHAT IS BEING CALLED AN "EQUITY PAYMENT" IN THE DECOUPLING BILL WOULD BE SET AT $1.35 FOR 1990 AND COULD GO DOWN 10% PER YEAR TO $.68 BY 1995. A PAYMENT CALLED A FARM INCOME PAYMENT WOULD BE MADE ONLY IF THE U.S. SECRETARY OF AGRICULTURE DETERMINES THAT NET FARM INCOME FOR PRODUCERS IN 1990 AND 1991 WOULD BE LESS THAN UNDER THE OLD FARM PROGRAM. NO SUCH FARM INCOME PAYMENTS WOULD BE MADE FOR 1993, 1994, AND 1995. IF DECOUPLING BECOMES LAW, YOU WOULD ONLY HAVE THE $1.60 OR LOWER PRICE SUPPORT AND THE EQUITY PAYMENT WHICH COULD DROP BELOW $1.00 PER BUSHEL FOR 1993, 1994, AND 1995.

10 ARE YOU FOR OR AGAINST THE DECOUPLING CONCEPT THAT I HAVE JUST DESCRIBED?

	NAT'L TOTAL	CO	ID	KS	MN	MT	NE	ND	OK	OR	SD	TX	WA	HRW	OTHER	<500 ACRES WHEAT	500+ ACRES WHEAT
TOTAL	649	22	25	155	66	32	64	73	15	14	71	20	92	379	270	400	249
NO ANSWER/NOT ASKED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NUMBER ANSWERING	649 100.0	22 100.0	25 100.0	155 100.0	66 100.0	32 100.0	64 100.0	73 100.0	15 100.0	14 100.0	71 100.0	20 100.0	92 100.0	379 100.0	270 100.0	400 100.0	249 100.0
FOR	101 15.6	1 4.5	9 36.0	19 12.3	12 18.2	8 25.0	8 12.5	10 13.7	-	5 35.7	9 12.7	1 5.0	19 20.7	46 12.1	55 20.4	54 13.5	47 18.9
AGAINST	460 70.9	18 81.8	13 52.0	115 74.2	49 74.2	22 68.8	46 71.9	55 75.3	14 93.3	5 35.7	52 73.2	16 80.0	55 59.8	283 74.7	177 65.6	291 72.8	169 67.9
DON'T KNOW/ REFUSED	88 13.6	3 13.6	3 12.0	21 13.5	5 7.6	2 6.3	10 15.6	8 11.0	1 6.7	4 28.6	10 14.1	3 15.0	18 19.6	50 13.2	38 14.1	55 13.8	33 13.3

NATIONAL AGRICULTURAL POLICY POLL
NOVEMBER, 1988
8332

11 ARE YOU FOR OR AGAINST THE LOWERING OF PRICE SUPPORTS FOR WHEAT?

	NAT'L TOTAL	CO	ID	KS	MN	MT	NE	ND	OK	OR	SD	TX	WA	HRW	OTHER	<500 ACRES WHEAT	500+ ACRES WHEAT
TOTAL	649	22	25	155	66	32	64	73	15	14	71	20	92	379	270	400	249
NO ANSWER/NOT ASKED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NUMBER ANSWERING	649 100.0	22 100.0	25 100.0	155 100.0	66 100.0	32 100.0	64 100.0	73 100.0	15 100.0	14 100.0	71 100.0	20 100.0	92 100.0	379 100.0	270 100.0	400 100.0	249 100.0
FOR	141 21.7	1 4.5	7 28.0	34 21.9	10 15.2	4 12.5	10 15.6	15 20.5	2 13.3	10 71.4	13 18.3	4 20.0	31 33.7	68 17.9	73 27.0	87 21.8	54 21.7
AGAINST	441 68.0	20 90.9	14 56.0	101 65.2	47 71.2	23 71.9	48 75.0	52 71.2	12 80.0	3 21.4	52 73.2	15 75.0	54 58.7	271 71.5	170 63.0	269 67.3	172 69.1
DON'T KNOW/ REFUSED	67 10.3	1 4.5	4 16.0	20 12.9	9 13.6	5 15.6	6 9.4	6 8.2	1 6.7	1 7.1	6 8.5	1 5.0	7 7.6	40 10.6	27 10.0	44 11.0	23 9.2

NATIONAL AGRICULTURAL POLICY POLL
NOVEMBER, 1988
8332

12 THE MARKET PRICE IS SUPPORTED BY THE ASCS LOAN RATE. DO YOU WANT THAT PRICE SUPPORT LOAN TO BE SET BELOW, AT, OR ABOVE $4.00 PER BUSHEL?

	NAT'L TOTAL	CO	ID	KS	MN	MT	NE	ND	OK	OR	SD	TX	WA	HRW	OTHER	<500 ACRES WHEAT	500+ ACRES WHEAT
TOTAL	649	22	25	155	66	32	64	73	15	14	71	20	92	379	270	400	249
NO ANSWER/NOT ASKED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NUMBER ANSWERING	649 100.0	22 100.0	25 100.0	155 100.0	66 100.0	32 100.0	64 100.0	73 100.0	15 100.0	14 100.0	71 100.0	20 100.0	92 100.0	379 100.0	270 100.0	400 100.0	249 100.0
BELOW $4.00 PER BUSHEL	114 17.6	2 9.1	3 12.0	25 16.1	6 9.1	8 25.0	11 17.2	14 19.2	1 6.7	1 7.1	10 14.1	4 20.0	29 31.5	61 16.1	53 19.6	66 16.5	48 19.3
AT $4.00 PER BUSHEL	240 37.0	7 31.8	5 20.0	70 45.2	29 43.9	11 34.4	26 40.6	22 30.1	3 20.0	5 35.7	30 42.3	10 50.0	22 23.9	157 41.4	83 30.7	164 41.0	76 30.5
ABOVE $4.00 PER BUSHEL	254 39.1	8 36.4	16 64.0	52 33.5	28 42.4	8 25.0	25 39.1	34 46.6	9 60.0	4 28.6	29 40.8	5 25.0	36 39.1	136 35.9	118 43.7	147 36.8	107 43.0
DON'T KNOW	41 6.3	5 22.7	1 4.0	8 5.2	3 4.5	5 15.6	2 3.1	3 4.1	2 13.3	4 28.6	2 2.8	1 5.0	5 5.4	25 6.6	16 5.9	23 5.8	18 7.2

NATIONAL AGRICULTURAL POLICY POLL
NOVEMBER, 1988
8332

14 SHOULD U.S. WHEAT PRODUCERS WORK TOGETHER THROUGH THE FARM PROGRAM TO BALANCE WHEAT PRODUCTION AND SUPPLY WITH THE REALISTIC DEMAND OF THE MARKETPLACE?

	NAT'L TOTAL	CO	ID	KS	MN	MT	NE	ND	OK	OR	SD	TX	WA	HRW	OTHER	<500 ACRES WHEAT	500+ ACRES WHEAT
TOTAL	649	22	25	155	66	32	64	73	15	14	71	20	92	379	270	400	249
NO ANSWER/NOT ASKED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NUMBER ANSWERING	649 100.0	22 100.0	25 100.0	155 100.0	66 100.0	32 100.0	64 100.0	73 100.0	15 100.0	14 100.0	71 100.0	20 100.0	92 100.0	379 100.0	270 100.0	400 100.0	249 100.0
YES	553 85.2	20 90.9	21 84.0	136 87.7	59 89.4	26 81.3	54 84.4	66 90.4	14 93.3	12 85.7	52 73.2	19 95.0	74 80.4	321 84.7	232 85.9	331 82.8	222 89.2
NO	52 8.0	-	3 12.0	11 7.1	6 9.1	4 12.5	1 1.6	5 6.8	-	2 14.3	9 12.7	1 5.0	10 10.9	26 6.9	26 9.6	37 9.3	15 6.0
DON'T KNOW	44 6.8	2 9.1	1 4.0	8 5.2	1 1.5	2 6.3	9 14.1	2 2.7	1 6.7	-	10 14.1	-	8 8.7	32 8.4	12 4.4	32 8.0	12 4.8

NATIONAL AGRICULTURAL POLICY POLL
NOVEMBER, 1988
8332

15 DO YOU SUPPORT ACREAGE REDUCTION OR SET ASIDE PROGRAMS AS A MEANS TO MANAGE WHEAT SUPPLY AND INCREASE WHEAT PRICES?

	NAT'L TOTAL	CO	ID	KS	MN	MT	NE	ND	OK	OR	SD	TX	WA	HRW	OTHER	<500 ACRES WHEAT	500+ ACRES WHEAT
TOTAL	649	22	25	155	66	32	64	73	15	14	71	20	92	379	270	400	249
NO ANSWER/NOT ASKED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NUMBER ANSWERING	649 100.0	22 100.0	25 100.0	155 100.0	66 100.0	32 100.0	64 100.0	73 100.0	15 100.0	14 100.0	71 100.0	20 100.0	92 100.0	379 100.0	270 100.0	400 100.0	249 100.0
YES	486 74.9	18 81.8	13 52.0	122 78.7	55 83.3	22 68.8	49 76.6	57 78.1	14 93.3	8 57.1	48 67.6	14 70.0	66 71.7	287 75.7	199 73.7	295 73.8	191 76.7
NO	136 21.0	4 18.2	9 36.0	25 16.1	11 16.7	10 31.3	11 17.2	14 19.2	1 6.7	6 42.9	17 23.9	4 20.0	24 26.1	72 19.0	64 23.7	87 21.8	49 19.7
DON'T KNOW	27 4.2	-	3 12.0	8 5.2	-	-	4 6.3	2 2.7	-	-	6 8.5	2 10.0	2 2.2	20 5.3	7 2.6	18 4.5	9 3.6

NATIONAL AGRICULTURAL POLICY POLL
NOVEMBER, 1988
8332

16 SHOULD THE UNITED STATES HAVE "FENCE-ROW TO FENCE-ROW" WHEAT PRODUCTION?

	NAT'L TOTAL	CO	ID	KS	MN	MT	NE	ND	OK	OR	SD	TX	WA	HRW	OTHER	<500 ACRES WHEAT	500+ ACRES WHEAT
TOTAL	649	22	25	155	66	32	64	73	15	14	71	20	92	379	270	400	249
NO ANSWER/NOT ASKED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NUMBER ANSWERING	649 100.0	22 100.0	25 100.0	155 100.0	66 100.0	32 100.0	64 100.0	73 100.0	15 100.0	14 100.0	71 100.0	20 100.0	92 100.0	379 100.0	270 100.0	400 100.0	249 100.0
YES	81 12.5	2 9.1	7 28.0	14 9.0	7 10.6	6 18.8	5 7.8	7 9.6	1 6.7	4 28.6	11 15.5	-	17 18.5	39 10.3	42 15.6	53 13.3	28 11.2
NO	524 80.7	17 77.3	16 64.0	132 85.2	55 83.3	25 78.1	55 85.9	63 86.3	13 86.7	8 57.1	54 76.1	20 100.0	66 71.7	316 83.4	208 77.0	317 79.3	207 83.1
DON'T KNOW	44 6.8	3 13.6	2 8.0	9 5.8	4 6.1	1 3.1	4 6.3	3 4.1	1 6.7	2 14.3	6 8.5	-	9 9.8	24 6.3	20 7.4	30 7.5	14 5.6

20 DO YOU SUPPORT A CHANGE IN U.S. GRAIN STANDARDS FOR WHEAT THAT REQUIRES U.S. WHEAT TO BE AT LEAST AS CLEAN AS CANADIAN AND AUSTRALIAN WHEAT THAT IS SOLD IN INTERNATIONAL TRADE?

	NAT'L TOTAL	CO	ID	KS	MN	MT	NE	ND	OK	OR	SD	TX	WA	HRW	OTHER	<500 ACRES WHEAT	500+ ACRES WHEAT
TOTAL	649	22	25	155	66	32	64	73	15	14	71	20	92	379	270	400	249
NO ANSWER/NOT ASKED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NUMBER ANSWERING	649 100.0	22 100.0	25 100.0	155 100.0	66 100.0	32 100.0	64 100.0	73 100.0	15 100.0	14 100.0	71 100.0	20 100.0	92 100.0	379 100.0	270 100.0	400 100.0	249 100.0
YES	596 91.8	19 86.4	23 92.0	145 93.5	57 86.4	31 96.9	58 90.6	72 98.6	14 93.3	12 85.7	65 91.5	18 90.0	82 89.1	350 92.3	246 91.1	370 92.5	226 90.8
NO	35 5.4	2 9.1	2 8.0	7 4.5	7 10.6	1 3.1	3 4.7	-	-	2 14.3	3 4.2	2 10.0	6 6.5	18 4.7	17 6.3	22 5.5	13 5.2
DON'T KNOW	18 2.8	1 4.5	-	3 1.9	2 3.0	-	3 4.7	1 1.4	1 6.7	-	3 4.2	-	4 4.3	11 2.9	7 2.6	8 2.0	10 4.0

NATIONAL AGRICULTURAL POLICY POLL
NOVEMBER, 1988
8332

21 DO YOU BELIEVE THAT TIGHTER GRAIN STANDARDS, STRICTER GRADE REQUIREMENTS, AND CLEANER WHEAT WILL BENEFIT YOU AS A FARMER?

	NAT'L TOTAL	CO	ID	KS	MN	MT	NE	ND	OK	OR	SD	TX	WA	HRW	OTHER	<500 ACRES WHEAT	500+ ACRES WHEAT
TOTAL	649	22	25	155	66	32	64	73	15	14	71	20	92	379	270	400	249
NO ANSWER/NOT ASKED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NUMBER ANSWERING	649	22	25	155	66	32	64	73	15	14	71	20	92	379	270	400	249
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
YES	579	20	22	140	57	28	54	67	13	13	65	18	82	338	241	362	217
	89.2	90.9	88.0	90.3	86.4	87.5	84.4	91.8	86.7	92.9	91.5	90.0	89.1	89.2	89.3	90.5	87.1
NO	53	1	3	10	7	2	9	4	1	1	6	1	8	30	23	25	28
	8.2	4.5	12.0	6.5	10.6	6.3	14.1	5.5	6.7	7.1	8.5	5.0	8.7	7.9	8.5	6.3	11.2
DON'T KNOW	17	1	-	5	2	2	1	2	1	-	-	1	2	11	6	13	4
	2.6	4.5		3.2	3.0	6.3	1.6	2.7	6.7			5.0	2.2	2.9	2.2	3.3	1.6

NATIONAL AGRICULTURAL POLICY POLL
NOVEMBER, 1988
8332

22 DO YOU BELIEVE THAT CLEANER GRAIN THROUGH TIGHTER GRAIN STANDARDS WILL MAKE THE U.S. MORE COMPETITIVE IN THE WORLD MARKET AND INCREASE U.S. EXPORTS?

	NAT'L TOTAL	CO	ID	KS	MN	MT	NE	ND	OK	OR	SD	TX	WA	HRW	OTHER	<500 ACRES WHEAT	500+ ACRES WHEAT
TOTAL	649	22	25	155	66	32	64	73	15	14	71	20	92	379	270	400	249
NO ANSWER/NOT ASKED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NUMBER ANSWERING	649 100.0	22 100.0	25 100.0	155 100.0	66 100.0	32 100.0	64 100.0	73 100.0	15 100.0	14 100.0	71 100.0	20 100.0	92 100.0	379 100.0	270 100.0	400 100.0	249 100.0
YES	590 90.9	19 86.4	23 92.0	146 94.2	57 86.4	28 87.5	59 92.2	68 93.2	15 100.0	12 85.7	63 88.7	16 80.0	84 91.3	346 91.3	244 90.4	367 91.8	223 89.6
NO	39 6.0	2 9.1	1 4.0	7 4.5	7 10.6	2 6.3	5 7.8	2 2.7	-	1 7.1	5 7.0	1 5.0	6 6.5	22 5.8	17 6.3	21 5.3	18 7.2
DON'T KNOW	20 3.1	1 4.5	1 4.0	2 1.3	2 3.0	2 6.3	-	3 4.1	-	1 7.1	3 4.2	3 15.0	2 2.2	11 2.9	9 3.3	12 3.0	8 3.2

25 DO YOU BELIEVE THAT FOREIGN COUNTRIES SHOULD DESIGN THEIR OWN INTERNAL FARM POLICIES WITHOUT INTERFERENCE OR PRESSURE FROM THE UNITED STATES GOVERNMENT?

	NAT'L TOTAL	CO	ID	KS	MN	MT	NE	ND	OK	OR	SD	TX	WA	HRW	OTHER	<500 ACRES WHEAT	500+ ACRES WHEAT
TOTAL	649	22	25	155	66	32	64	73	15	14	71	20	92	379	270	400	249
NO ANSWER/NOT ASKED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NUMBER ANSWERING	649 100.0	22 100.0	25 100.0	155 100.0	66 100.0	32 100.0	64 100.0	73 100.0	15 100.0	14 100.0	71 100.0	20 100.0	92 100.0	379 100.0	270 100.0	400 100.0	249 100.0
YES	486 74.9	14 63.6	17 68.0	123 79.4	49 74.2	28 87.5	54 84.4	55 75.3	12 80.0	10 71.4	47 66.2	17 85.0	60 65.2	295 77.8	191 70.7	301 75.3	185 74.3
NO	94 14.5	3 13.6	5 20.0	19 12.3	11 16.7	2 6.3	6 9.4	11 15.1	1 6.7	3 21.4	11 15.5	2 10.0	20 21.7	44 11.6	50 18.5	53 13.3	41 16.5
DON'T KNOW	69 10.6	5 22.7	3 12.0	13 8.4	6 9.1	2 6.3	4 6.3	7 9.6	2 13.3	1 7.1	13 18.3	1 5.0	12 13.0	40 10.6	29 10.7	46 11.5	23 9.2

NATIONAL AGRICULTURAL POLICY POLL
NOVEMBER, 1988
8332

26 SOME GROUPS TALK ABOUT "FREE TRADE" OR A "FREE MARKET." IT IS A TEXTBOOK THEORY THAT MEANS FREE COMPETITION AND NO GOVERNMENT INTERFERENCE OR CONTROL OF TRADE ANYWHERE. WHETHER OR NOT YOU SUPPORT THE THEORY, DO YOU BELIEVE THAT FREE TRADE OR A FREE MARKET EXISTS TODAY WHERE THE INTERNATIONAL BUYING AND SELLING OF WHEAT IS CONCERNED?

	NAT'L TOTAL	CO	ID	KS	MN	MT	NE	ND	OK	OR	SD	TX	WA	HRW	OTHER	<500 ACRES WHEAT	500+ ACRES WHEAT
TOTAL	649	22	25	155	66	32	64	73	15	14	71	20	92	379	270	400	249
NO ANSWER/NOT ASKED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NUMBER ANSWERING	649 100.0	22 100.0	25 100.0	155 100.0	66 100.0	32 100.0	64 100.0	73 100.0	15 100.0	14 100.0	71 100.0	20 100.0	92 100.0	379 100.0	270 100.0	400 100.0	249 100.0
YES	110 16.9	6 27.3	2 8.0	26 16.8	12 18.2	8 25.0	7 10.9	12 16.4	-	3 21.4	15 21.1	8 40.0	11 12.0	70 18.5	40 14.8	71 17.8	39 15.7
NO	480 74.0	16 72.7	21 84.0	110 71.0	47 71.2	21 65.6	47 73.4	59 80.8	15 100.0	11 78.6	48 67.6	10 50.0	75 81.5	267 70.4	213 78.9	288 72.0	192 77.1
DON'T KNOW	59 9.1	-	2 8.0	19 12.3	7 10.6	3 9.4	10 15.6	2 2.7	-	-	8 11.3	2 10.0	6 6.5	42 11.1	17 6.3	41 10.3	18 7.2

NATIONAL AGRICULTURAL POLICY POLL
NOVEMBER, 1988
8332

27 DO YOU BELIEVE THAT U.S. FARMERS SHOULD WORK TOGETHER WITH THE FARMERS OF OTHER COUNTRIES TO PERSUADE OUR GOVERNMENTS TO SUPPORT THE MARKET PRICE OF WHEAT UP TO AT LEAST $4.00 OR $5.00 PER BUSHEL?

	NAT'L TOTAL	CO	ID	KS	MN	MT	NE	ND	OK	OR	SD	TX	WA	HRW	OTHER	<500 ACRES WHEAT	500+ ACRES WHEAT
TOTAL	649	22	25	155	66	32	64	73	15	14	71	20	92	379	270	400	249
NO ANSWER/NOT ASKED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NUMBER ANSWERING	649 100.0	22 100.0	25 100.0	155 100.0	66 100.0	32 100.0	64 100.0	73 100.0	15 100.0	14 100.0	71 100.0	20 100.0	92 100.0	379 100.0	270 100.0	400 100.0	249 100.0
YES	458 70.6	14 63.6	16 64.0	117 75.5	47 71.2	20 62.5	55 85.9	55 75.3	10 66.7	5 35.7	50 70.4	16 80.0	53 57.6	282 74.4	176 65.2	281 70.3	177 71.1
NO	146 22.5	6 27.3	5 20.0	28 18.1	16 24.2	6 18.8	8 12.5	15 20.5	5 33.3	9 64.3	14 19.7	3 15.0	31 33.7	70 18.5	76 28.1	86 21.5	60 24.1
DON'T KNOW	45 6.9	2 9.1	4 16.0	10 6.5	3 4.5	6 18.8	1 1.6	3 4.1	-	-	7 9.9	1 5.0	8 8.7	27 7.1	18 6.7	33 8.3	12 4.8

NATIONAL AGRICULTURAL POLICY POLL
NOVEMBER, 1988
8332

STATES

	NAT'L TOTAL	CO	ID	KS	MN	MT	NE	ND	OK	OR	SD	TX	WA	NRW	OTHER	<500 ACRES WHEAT	500+ ACRES WHEAT
TOTAL	649	22	25	155	66	32	64	73	15	14	71	20	92	379	270	400	249
NO ANSWER/NOT ASKED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NUMBER ANSWERING	649 100.0	22 100.0	25 100.0	155 100.0	66 100.0	32 100.0	64 100.0	73 100.0	15 100.0	14 100.0	71 100.0	20 100.0	92 100.0	379 100.0	270 100.0	400 100.0	249 100.0
COLORADO	22 3.4	22 100.0	-	-	-	-	-	-	-	-	-	-	-	22 5.8	-	8 2.0	14 5.6
IDAHO	25 3.9	-	25 100.0	-	-	-	-	-	-	-	-	-	-	-	25 9.3	20 5.0	5 2.0
KANSAS	155 23.9	-	-	155 100.0	-	-	-	-	-	-	-	-	-	155 40.9	-	123 30.8	32 12.9
MINNESOTA	66 10.2	-	-	-	66 100.0	-	-	-	-	-	-	-	-	-	66 24.4	57 14.3	9 3.6
MONTANA	32 4.9	-	-	-	-	32 100.0	-	-	-	-	-	-	-	32 8.4	-	11 2.8	21 8.4
NEBRASKA	64 9.9	-	-	-	-	-	64 100.0	-	-	-	-	-	-	64 16.9	-	8 2.0	56 22.5
NORTH DAKOTA	73 11.2	-	-	-	-	-	-	73 100.0	-	-	-	-	-	-	73 27.0	39 9.8	34 13.7
OKLAHOMA	15 2.3	-	-	-	-	-	-	-	15 100.0	-	-	-	-	15 4.0	-	9 2.3	6 2.4
OREGON	14 2.2	-	-	-	-	-	-	-	-	14 100.0	-	-	-	-	14 5.2	7 1.8	7 2.8
SOUTH DAKOTA	71 10.9	-	-	-	-	-	-	-	-	-	71 100.0	-	-	71 18.7	-	59 14.8	12 4.8

NATIONAL AGRICULTURAL POLICY POLL
NOVEMBER, 1988
8332

STATES

	NAT'L TOTAL	CO	ID	KS	MN	MT	NE	ND	OK	OR	SD	TX	WA	HRW	OTHER	<500 ACRES WHEAT	500+ ACRES WHEAT
TEXAS	20	-	-	-	-	-	-	-	-	-	-	20	-	20	-	14	6
	3.1											100.0		5.3		3.5	2.4
WASHINGTON	92	-	-	-	-	-	-	-	-	-	-	-	92	-	92	45	47
	14.2												100.0		34.1	11.3	18.9

PREPARED STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

Mr. Secretary, I join other Senators in welcoming you to this hearing. I believe you are providing strong and intelligent leadership in the Department of Agriculture and I hope our committee will work in a cooperative way with you to help solve the problems that confront our Nation's agriculture producers.

As we approach the writing of farm legislation I hope we will carefully review the suggestions you have made in your prepared statement, which I have read. Thank you for assisting our committee in our review of the options for the 1990 farm bill.

PREPARED STATEMENT OF HON. MITCH MCCONNELL, A U.S. SENATOR FROM KENTUCKY

When the debate began on the 1985 farm bill there were three common themes that emerged. There was a defined effort to make U.S. agricultural products more competitive in world markets, an emphasis to reduce stocks to more manageable levels, plus maintain farmer's income. Based on these three criteria the 1985 Food Security Act is working.

I believe that the 1985 legislation does provide a very good base for us to build an even better farm bill for American agriculture. There have been problems that we were forced to deal with which none of us could have anticipated and we need to realize there will be problems with any new legislation that is written. That is why it is vital the new farm bill does provide for flexibility so that we may best deal with the inevitability of change in agriculture.

During the decade of the 1980's corn yields have averaged nearly 105 bushels per acre and that includes the severe droughts of 1983 and 1988. If those 2 years are removed the average jumps to 111 bushels per acre. Similar improvements are evident in many other crops. One fact is very clear, American farmers are very productive and the policy that governs this industry should in no way limit the advancement in efficiency and productivity.

Agriculture is more global now than at any other time in history. Total world grain production set a record during the 1986–1987 crop-year and world grain stocks swelled to nearly 460 million metric tons. While United States output did contribute a large share to the record stocks it cannot be denied that countries such as China, Argentina, Brazil, and the European Communities were increasing acreage during a period when U.S. agricultural policy was limiting planted acreage.

The United States' share of world feed grain trade fell below 40 percent during 1985–1986 at the same time our grain bins were overflowing. It is that situation that proves just how crucial trade is to U.S. agriculture. It is in trade that much of the focus of the farm bill should center.

Many economist believe that trade is becoming more global. This presents a unique opportunity for U.S. agricultural policy to define the ground rules for the rest of this century and even into the next century. The U.S. economy can benefit fron. increased agricultural exports. These exports should not only be limited to raw commodities but to value added commodities which adds new jobs and improves the balance of trade.

While trade is essential in the global environment, flexibility and simplicity are essential to the domestic producers. Many times the law is written with too low of a regard for those that must carry it out. In Kentucky we have many small farmers, but they are required to fill out as many forms and are burdened with the same compliance as producers many times their size. This is not to say that they should be given special privileges, but it should be recognized that all farms are not the same.

There seems to be a common feeling from Kentucky farmers that they like the 1985 bill but one thing they would change if they could is to add simplicity and flexibility. They mention that all farms are not the same and it seems that much too much paper work is required. They often get discouraged and wonder if the benefits are worth the effort. This is not the signal the new legislation need to send to farmers.

The concern over flexibility is an equally large problem. In Kentucky where many of our fields are on rolling ground, it is not a good management practice to continuously grow corn. These fields need to be rotated from corn to wheat to soybeans to reduce erosion and rebuild soil nutrients. The farmers are penalized if they try to be good stewards of the soil. The cost of losing corn base acres and potential program benefits is too high.

The advantages from adding flexibility go beyond good management. Providing farmers the opportunity to react to market signals rather than program signals will also help in the long term goal of reducing farmer dependence on government programs. When market prices indicate soybeans are more profitable than corn the opportunity to grow soybeans should be on option that is available without excessive opportunity costs.

I realize that there will be no shortage of opinions or lack of suggestions on how to improve on the current bill. I would hope that as this committee moves through the deliberations we will keep some basic guidelines in focus. The main goal is continue the trend of more strength and competitiveness for American agricultural products, while avoiding some of the extreme fluctuations in farm income.

PREPARED STATEMENT OF HON. CHRISTOPHER S. "KIT" BOND, A U.S. SENATOR FROM MISSOURI

Mr. Chairman, I commend both you and Senator Lugar for beginning hearings on the next farm bill so early in the year. I look forward to the challenge which lies ahead—one that affects millions of people throughout the world. For those of us representing agricultural States, the next farm bill will be the most important piece of agricultural legislation considered during our term.

I welcome my good friend, Secretary Yeutter, to the committee and believe it is fitting that he be a part of our farm bill kickoff. I read his testimony and was pleased to hear his views on a wide range of issues—the overall success of the 1985 farm bill, the need for fiscal restraint, the importance of reform in international agricultural trade, the desire for additional planting flexibility, the continuation of strong conservation programs and the belief that we should pass the next farm bill as soon as possible.

Mr. Chairman, I have already started soliciting the views of agriculturists in Missouri. Last month, I held three farm bill meetings throughout the State. It proved to be very educational. While there was general support for the framework of the 1985 farm bill, I heard several interesting ideas and learned of other legitimate concerns. I am confident that members of this committee will share my views following our upcoming trip to the Show-Me State.

There are several issues in which I plan to be very involved during the development of the farm bill. Planting flexibility has become a popular topic of late—whether it be soybeans or new industrial crops. I support this concept, yet want to be sure that all of the various options are analyzed. We must know what effects the various proposals will have on production, prices, net farm income and government outlays. Furthermore, I hope that we can refrain from enacting major policy changes this year in an attempt to generate budget savings.

The conservation title of the 1985 farm bill has had an enormous impact on the State of Missouri. Over the past 2 years, I have heard a great deal about each and every one of the major programs—conservation compliance, the conservation reserve program (CRP), sodbuster and swampbuster. While producers are supportive of efforts to ensure long-term sustainable agriculture, many question the regulations associated with these conservation programs. As policymakers, we are obligated to address these concerns.

Today, we are still 8 million acres short of the 40 million acre goal of the CRP. Is it feasible to attempt to enroll this additional acreage by increasing acceptable rental rates or further expanding the eligibility criteria? Maybe we should consider utilizing some of these ends to provide assistance to those producers who have to implement expensive conservation plans in order to remain in compliance. Also, we should begin to consider issues such as life after CRP and the feasibility of multiyear set-asides.

In his testimony, Secretary Yeutter addresses the cost of Federal farm programs. While I agree that we should strive to minimize the cost—I believe we should know fully the correlation between farm program spending and net farm income. No one disagrees that the Federal budget deficit is a national problem, I just hope that the imposition of fiscal responsibility does not unfairly target agriculture.

Mr. Chairman, both the number and complexity of issues in a farm bill is staggering. Issues such as commodity reserves, ground water quality, food safety and agricultural exports are just a few of those which I look forward to discussing.

Again, I thank the chairman for getting us started so quickly and welcome the challenge that lies ahead.

PREPARED STATEMENT OF HON. PETE WILSON, A U.S. SENATOR FROM CALIFORNIA

Mr. Chairman, I join you in welcoming Secretary Yeutter to the committee this morning as we begin the important process of reauthorizing the 1985 farm bill.

I have said this before, but it is worth restating: as our former Trade Representative, and as a farmer himself, Secretary Yeutter is uniquely qualified to advise this committee on the effects of proposed legislation both on our farm programs, and on the ongoing GATT negotiations.

I am sure that Secretary Yeutter would agree that to ensure the future vitality of our farm markets, American agriculture must pursue market-oriented policies within a framework that sustains the health of American agriculture at a fair cost to the taxpayer.

As this Nation faces increasing pressure to reduce the size of the Federal budget, we must carefully review the effectiveness of our farm programs and their value to our farmers.

In that vein, I would commend to my colleagues an editorial that appeared in the Washington Post on April 10, 1989, concerning the need to scrutinize the costs of the farm programs at a time when commodity prices are high and our tolerance for Federal deficits is low.

Mr. Chairman, I ask unanimous consent to have a copy of that editorial placed in the hearing record.

One of the programs contained in the 1985 farm bill that has proven to be successful beyond anyone's dreams is the Targeted Export Assistance Program—or "TEA Program"—as it is commonly known.

It has proven to be of great benefit not simply to the growers in my State of California—but to all those linked in the chain of production, distribution, and export of agricultural commodities.

While I take fatherly pride in its development, I echo the praise that has been lavished on the program that it is the "star of the 1985 farm bill."

I look forward to working with my colleagues to ensure that this program—with its highly successful track record—will be reauthorized in the 1990 farm bill.

Finally, Mr. Chairman, I would call this committee's attention to an area that is of great concern to the farmers and consumers in my home State of California: food safety.

The farmers in California as, I am sure, the farmers within the States of each member at this table, care deeply about the safety and wholesomeness of the food they produce. Consumers, as well, must have confidence that the food they purchase and consume is safe.

As we begin examination of the current farm bill, it is important for this committee to consider carefully the myriad aspects of food safety so that this Nation will continue to provide the safest, most wholesome food supply in the world.

To that end, Mr. Chairman, I would extend an invitation to you and to my colleagues to see what we are doing in California where we have one of the toughest State pesticide programs in the country.

Thank you, Mr. Chairman. I look forward to hearing Secretary Yeutter's remarks and working with you on this important legislation.

[The Washington Post editorial, "Farm Turnaround," Monday, April 10, 1989, follows:]

FARM TURNAROUND

Through most of the 1980s the main farm problem here and in other exporting countries was too much of a good thing. Production far outstripped demand, so that prices were depressed and government support costs soared. Now the problem threatens to become the reverse. Thanks partly to last summer's drought but also to U.S. and other government policies in recent years, world grain reserves are the lowest since the Soviets basically bought out the U.S. wheat supply (and helped produce double-digit inflation) in the early 1970s. The question is whether producing countries will now adjust their policies accordingly.

The U.N. Food and Agriculture Organization says world grain stocks have fallen to about a sixth of a year's, or 60 days', supply, a critical level. Prices are up accordingly, so that weaker Third World countries will either be further drained of hard currency or unable to feed their populations. Much of the world's reserve is held in this country. The drought has already reduced the crucial wheat reserve to a little less than two-thirds normal, and continues to affect the Winter wheat crop, which is now in the fields and normally constitutes half of U.S. production. Even if all else goes well, the reserve is thought likely to fall to less than half of normal later in the year. At that level any faltering in the world feed-grain harvest could be disastrous.

The government normally requires farmers to idle some land as a condition of participating in the support program. To limit production and the government's exposure, this set-aside requirement was greatly increased in the early '80s. Now it has been much reduced, and for the short run some experts would reduce it even further. A wise government would also use this interlude of higher prices as an opportunity to reduce supports. Reduced in recent years to discourage excess production and throw farmers back on the market, supports still remain too high. The time to reduce them further is now, when farmers don't need them as much and won't feel it because market prices are also relatively high. This is also a free year politically—not an election year.

The Bush administration has proposed a cut in support costs to help reduce the deficit but hasn't said how the cut should be achieved. It ought to do so. There are, as it observed encouragingly in its budget, several obvious ways. It should then press the agriculture committees to act. The government needs to keep a floor under agriculture, but no more than a floor. In the long run the generous system now in place does the country more harm than good.

The CHAIRMAN. Clayton, it is yours.

STATEMENT OF CLAYTON YEUTTER, SECRETARY OF AGRICULTURE, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Secretary YEUTTER. Thank you, Mr. Chairman; and Senator Lugar, Senator Pryor, Senator Heflin, it is good to see all of you this morning. It is good to have an opportunity to start off this process; and I am delighted to do so.

FARM BILL IN 1989, 1990, AND 1991

As you indicated, Mr. Chairman, in your opening remarks, we are going to be doing a lot of farm legislation in the future. As Senator Lugar suggested, we will need a farm bill in 1989 in response to the budget agreement. We will need a farm bill in 1990 in response to the termination of existing legislation. And, we will undoubtedly need a farm bill in 1991 to implement agreements reached in the Uruguay round, assuming that there are such agreements.

So it is very conceivable that we will have a farm bill each year for the next 3 years, which will be a lot of activity for all of us.

FIELD HEARINGS

First of all, let me commend you, Mr. Chairman, for planning those hearings—out in farm country. That is a sound course of action, and we will listen with much interest to what folks have to say in those hearings, just as you will.

HISTORIC LOOK

I thought it might be helpful, Mr. Chairman, to take a historic look for a minute as we focus on the next farm bill. It is always good to see what we did the last time around. The last time around was the 1985 legislation which, as Senator Heflin indicated, certainly has some good points.

I was not here at that time, but you were legislating under a great deal of economic stress. You will remember the situation well. We had just come out of a major recession in this country. We had an inordinately strong dollar a couple of years earlier, which priced our exports out of the world market. We had loan rates that were too high. That also priced our exports out of the world market. Farm debt was up. Farm foreclosures were up. Farm banks were closing. Agricultural surpluses were burdensome. Farm incomes were down substantially.

You sought to legislate in that environment, and try to achieve corrections in that situation. And in my judgment, you did remarkably well under the circumstances. The 1985 farm legislation certainly is not perfect. No legislation is. But in seeking a prescription for the ills of the day, I would say that this committee and the House Agriculture Committee and the administration did quite well.

ACTIONS TAKEN IN THE FOOD SECURITY ACT OF 1985

I would like to review very quickly what actions you took. You reduced loan rates and tied them to market prices, really for the first time ever; and that certainly helped our exports. That, of course, also increased budget exposure for these programs. You also reduced target prices some to at least help a bit on the cost side. It did help, although we ended up with very high costs anyway. I will mention budget costs in a minute.

You also provided a very strong export thrust, as you know, through export credit and the EEP program. These programs helped to expand exports and bring costs down a little. You took some land out of production, as well, both through the annual Acreage Reduction Program and the Conservation Reserve Program. The Conservation Reserve has certainly turned out to be a success.

I would say the annual acreage reduction programs may be of questionable wisdom in that regard. But if one looks at the overall outcome of what has transpired since you legislated in 1985, Mr. Chairman, the conclusion would be a very substantial improvement in exports.

Exports bottomed out in 1986 at about $26 billion. They will reach about $38 billion this year. So that is about a 50 percent improvement in a 3-year period of time. In volumes, the tonnage, as I recall, was about 110 million in 1986. It is up to 145 million tons of agricultural products this year. So we are selling 35 million additional tons of product, and that is a lot of additional product.

Stock levels are down. Part of that is due to the farm bill. Part of that is due to last year's drought, of course; but they have come down from the onerous levels that prevailed earlier.

Cash farm income reached an all-time high last year; $58 billion for our agricultural community as a whole. Farm debt is down substantially. It peaked at almost $200 billion back in 1983 and is down somewhere around $140 billion now.

Land values have begun to recover. And overall, I would say farmers are a lot more comfortable today than they were at the time you legislated.

BAD NEWS PART OF THE 1985 FARM BILL

The bad news part of the 1985 farm bill was cost. We were averaging, in terms of the cost of farm legislation, about $3 billion a year through most of the 1970's and on into the early 1980's. In fiscal year 1986, shortly after you put this farm bill into effect, but before the effects of the 1981 legislation were fully removed, costs topped-out at $25.8 billion, almost $26 billion, about eight times or so what we had been spending in the 1970's. That obviously was and is unsustainable.

COSTS HAVE COME DOWN

Fortunately, costs have come down some. In the last couple of years, they were at about $12.5 billion for price and income supports in fiscal 1988. It looks like they will be about $13.8 billion this year, which is somewhat higher; but part of that is related to the drought.

So we have come from the stratosphere of $26 billion in costs down to something a little more comfortable in the $10 to $15 billion area; but that is still four times what we were spending in the 1970's and 1980's; and I suspect that is unsustainable as well.

WHERE DO WE GO NOW?

Well, that is enough historical perspective. The question then becomes, where do we go now? It seems to me that we ought to look at fundamental objectives and then see how the 1985 farm bill fits into that. As you said, Mr. Chairman, things that work, we ought to keep. Things that are not working well, we ought to change.

FUNDAMENTAL SUGGESTIONS FOR NEW FARM BILL

My judgment is that, by and large, the bill has worked quite well, and we do not need major changes. My fundamental suggestions would be about as follows: First of all, just following up on the cost standpoint, it does seem to me, Mr. Chairman, that we have to see if we can find ways to reduce existing costs of the operation of these programs.

You are going to be under the pressures of the Gramm-Rudman-Hollings provisions of the law. In addition, we ought to try to get as much bang for the buck as we possibly can in these programs. That is just good management. You are responsible in the Congress for that, and I am responsible in the executive branch for that.

In this regard, there has been some discussion through the years about ways in which to target program benefits more effectively. In other words, can we use a rifle approach rather than a shotgun approach in some of these programs? But there has been more discussion than action, Mr. Chairman, because nobody has really figured out a feasible way to target benefits yet.

We ought to work on it some more. If some ideas emerge in your hearings process and in other hearings that we have, and if we can generate some additional ideas within the executive branch as to how to do that, we ought to explore them in the 1990 farm bill.

Excuse me. Senator Harkin, go ahead.

Senator HARKIN. There is a vote on the floor.

The CHAIRMAN. I thought we would let the Secretary finish his statement; then go to the vote, come back, and start asking questions.

Senator HARKIN. The Secretary will still be here when we get back?

Secretary **Yeutter**. Oh, sure.

Senator **Harkin**. Thank you.

Senator **Heflin**. He is talking sense. I would rather for him to talk longer on this. [Laughter.]

The **Chairman**. I am not going to leave until the 5-minute bell.

NEED TO LOOK FOR WAYS TO REDUCE GOVERNMENT INVOLVEMENT IN AGRICULTURE

Secretary **Yeutter**. The second suggestion that I would make in this regard is that it does seem to me that we still need to look for ways to reduce Government involvement in agriculture, and to grant farmers greater flexibility. All of us are hearing comments to that effect out of our farm population. Everybody would like greater flexibility in the operation of farm programs; and that is justifiable.

FLEXIBILITY

How to achieve flexibility without increasing cost is the challenge, of course. But certainly, farm legislation is more rigid than it should be; and we have got to look for ways to make it more flexible in the 1990 farm bill.

EXPORT THRUST

The export thrust needs to continue. Clearly, that is the heart of our farm program. Our population is growing rather slowly today. Incomes are still moving up substantially; so we get increased demand as incomes grow. But basically, we have to be exporters if we are going to have an economically viable farm population.

DECOUPLING

A third suggestion would be a desire to try to effect some changes in the linkage that we still have today between the income supports and price supports. Taken to its puristic extreme, this is what people call decoupling. Decoupling, as a concept, frightens some folks. It may be impractical to totally decouple price and income supports—price supports from income supports. But we ought to search for ways to move in that direction; because it does not make good sense to, in essence, force people to produce more in order to get increased benefits from the Government. Then we turn around, after stimulating that additional production, and spend additional dollars to try to move it into the world markets in some manner.

So, we need to work on that issue.

The **Chairman**. At that point, Mr. Secretary, I am going to recess just for a few minutes so we can go over and vote. We will come back and pick up right at that point.

[Recess.]

The **Chairman**. Again, I apologize for the delay; but if we can get back to the Secretary's statement.

Incidentally, Mr. Secretary, I appreciate the fact that your formal statement has been placed in the record. I thought what you were saying by yourself was very interesting; and please continue.

Secretary YEUTTER. Thank you, Mr. Chairman; I will try to do this rapidly so we can move onto the questions.

The CHAIRMAN. That is all right. You take the time you want.

Secretary YEUTTER. As you will recall, I was articulating what I thought were some of the changes that ought to be contemplated for the 1990 legislation, and some of the objectives that ought to be considered.

DOING A BETTER JOB IN RATIONALIZING TARGET PRICE RELATIONSHIPS

I just had one additional point on that list that I was mentioning; and that would be the issue or the objective of doing a better job in rationalizing target price relationships. As long as we are going to use target prices for income protection, as I assume we will continue to do, there needs to be some rationale for what those prices are; not only in terms of level, but in terms of relationships between and among the commodities.

Today, we certainly have a tilt toward the production of certain crops and tilt against the production of others. This is hurting us, for example, in soybeans, where we are not getting the level of production that we need to have if we are going to develop a permanent presence in international markets. It is also hurting us in a crop like oats, for example, where demand has increased substantially. Instead of producing oats here in the United States, we are importing oats; not because we cannot produce it competitively, but because the institutional structure demands that we do so. That is enough for basic objectives.

URUGUAY ROUND

I wanted to say a few words about the Uruguay round, because obviously it has a relationship to what all of us are going to be doing in farm legislation between now and 1991.

As you well know, if all stays on schedule, we hope to conclude the Uruguay round by the end of 1990; and whatever agreements are reached, as I indicated earlier, would need to be implemented in 1991.

We had a good week in Geneva a couple of weeks ago, at which time we reached a framework agreement in agriculture that will apply for the remainder of these negotiations. The expectation, of course, is that those negotiations will go on for about another 20 months or thereabouts.

It is much too early to know whether they will succeed, and what changes will ultimately be required as a result of those negotiations. But certainly it behooves this committee and the House Agriculture Committee to follow the negotiations closely, express your viewpoint and theirs to Ambassador Hills and to me as the negotiations proceed. I hope we can bring back a package of agreements that will be in the best interests of American agriculture, and which would be vigorously supported by both committees.

PAROCHIAL OR XENOPHOBIC

I made some reference in my prepared text, Mr. Chairman, about the comments that I have been hearing on Capitol Hill to the effect that we are going to write the 1990 farm bill in Washington and that we are not going to have it written in Geneva.

Well, we can be parochial or xenophobic if we wish. But the fact is, what we are attempting to do in Geneva is to have an influence on everybody else's farm bills. We are going to try to write the European Community's farm bill in Geneva, and Canada's farm bill, Australia's farm bill, Argentina's farm bill, and Brazil's farm bill. It would be unrealistic to expect that we will be able to do that without also having some impact on our own farm bill.

It would be nice if we could have our cake and eat it, too, and operate oblivious of what is happening in the rest of the world; but that is naive and unrealistic. We have to recognize that this is a global marketplace. We are dealing with global issues; and global issues demand global solutions. It is as simple as that. We cannot operate parochially any longer.

That does not mean that we should put the legislation on hold. You indicate in your opening statement, Mr. Chairman, we need to proceed with a 1990 farm bill; and I fully agree with that. We have no choice, because this present legislation expires before the Uruguay round is going to conclude.

But what we should also do in the 1990 farm bill is not only try to reach the fundamental objectives that I have articulated earlier, but also pass a piece of legislation that would be helpful in the negotiating process, if at all possible.

We certainly ought not pass legislation that would reduce our negotiating leverage in 1990; and if at all possible, we ought to pass legislation that will enhance our negotiating leverage.

NONTRADE, NONPRICE INCOME RELATED ISSUES DEMAND ATTENTION

Now, beyond that there are some nontrade, nonprice income related issues that clearly demand attention in this legislation. I would like to go onto those, if I may, for just a few minutes.

RISK MANAGEMENT

One of them is risk management, the issue of risk management by farmers, and I mean that in a very broad sense of the word. We do a lot of things through farm legislation today that assist in the management of risk. Clearly, the existence of price and income support programs helps in this regard. We have nonrecourse price support loans and storage programs, and disaster payments and crop insurance; a whole lot of things that contribute in one way or another to risk management.

Some of those, however, are duplicative. We are seeing some examples of that between crop insurance and disaster payments, for example. Some of them are very costly. All in all, what we need to do is examine what the role of the public sector should be in helping farmers manage risk; what the role of the private sector should be. To the degree that the public sector should be involved, we have to decide how best to do that.

Certainly crop insurance is a major element in risk management. We have a study of crop insurance coming out by July 1; and hopefully, that study, and set of commission recommendations, will be useful to you and to us as we deal with this subject in the 1990 farm legislation.

ENVIRONMENT

The environment certainly falls in the category of a high priority in 1990 for all of us, and the whole question of intergenerational tradeoffs, which has environmental implications. I commend this committee and the Congress for what was done on agriculturally related environmental issues in 1985.

You made major progress in that area. The estimates are that, in soil conservation programs alone, we are probably savings 600 million tons of soil a year, compared to what we were doing a few years earlier. That certainly is substantial progress. We have enrolled more than 28 million acres in the Conservation Reserve Program. This land is now much better protected environmentally than in the past.

LOW-INPUT SUSTAINABLE AGRICULTURE

Efforts are beginning to emerge, as we talked about during my confirmation hearings, in low-input sustainable agriculture. People are becoming concerned about ground water pollution. All of this will be on your agenda and mine in the coming months, as we develop this legislation.

ENVIRONMENTAL CONCERNS LINKED WITH AGRICULTURAL RESEARCH

I must say that the environmental concerns link very closely with agricultural research. It seems to me, Mr. Chairman, that probably one of the best things that this committee can do, and that I as Secretary of Agriculture can do, to help preserve our environment for the next century, is go engage in the research that is necessary to accomplish that objective.

Putting it another way, it seems to me that when you have a lot of environmental advocate groups today who are attempting to deal with these problems in a regulatory fashion, which may or may not be effective in the short run, but is not likely to be terribly effective in the long run, it seems to me that the long-run solution to environmental concerns is more likely to come from research than it is from regulatory activities.

I would hope that we could tilt that picture in the right direction, and give some focus during the hearings this year, and perhaps in the legislation itself, to the kind of research efforts that we truly need to protect the environment of this Nation 50 years from now.

Just to give specific examples, obviously we are doing some things with ethanol. They have not been very cost-effective yet; but certainly ethanol and other such fuel products can make a positive contribution in this area if they become economically feasible. Biodegradable plastics would be a second example. Biological pest control programs would be a third example. All of these have very strong research basis.

FOOD SAFETY

Just a comment or two on food safety. This becomes a question of dealing with the issue of risk assessment, regulatory programs that ought to apply in food safety, the administration of those programs, and information and communication efforts to try to keep these issues in perspective.

As I said on a radio program with President Bush yesterday, what has been happening in food safety recently is simply deplorable in my judgment; because we as a Nation have been engaged in information by fright rather than information through education.

It seems to me it behooves us to get back to dealing with these kinds of issues on a sound educational basis and an informational basis, rather than through the politics or the legalities of fright.

RURAL DEVELOPMENT

Rural development is an issue close to your heart, Mr. Chairman, and to that of many other members on this committee. We ought to search over the next few months, during the hearings process and in our deliberations together, for ways in which we can help to diversify rural economies around the world and help in job creation and educational endeavors out in rural areas.

We clearly need some creative thinking in that arena. Let us hope that some of it emerges in the hearings process and in other ways. We are not going to have a lot of dollars to expend in these kinds of programs, with the budgetary constraints that exist for all of us; but there may be some things that we can do to help local communities pull themselves up by their own bootstraps in this area. I hope we can get some things done.

As you may know, Mr. Chairman and members of the committee, the President yesterday named an internal task force within the government to work on this issue with the Secretary of Agriculture being named as chairman of that group. We hope to have specific thoughts and ideas on this subject that would be out by about the 1st of July.

LENDING PROGRAMS—FARMERS HOME ADMINISTRATION

A final comment, Mr. Chairman, would relate to lending programs and, more specifically, to the Farmers Home Administration. It seems to me that it behooves this committee, the House Agriculture Committee and myself, as Secretary of Agriculture, to take another look at our lending programs between now and when we pass the 1990 farm bill; and determine with as much specificity as we can what the role of the Farmers Home Administration ought to be.

To what degree should we have a grant component in Farmers Home programs? Should we be making loans at 1 percent, 5 percent, 10 percent? Just how large a subsidy should we make for Farmers Home programs, whatever they may be, on the farm, rural water districts and so on. That is one issue that merits some attention.

ARE WE GOING TO GRADUATE FARMERS HOME BORROWERS?

A second issue is clearly the time dimension of assistance that is provided in these areas. In other words, are we going to graduate Farmers Home borrowers? Today, we do not seem to graduate very many of them. We are telling the lesser-developed countries of the world, we want them to graduate from special assistance that they get under the GATT rules, for example. But we have had a hard time graduating people out of the Farmers Home Administration loan programs.

Do we want to permit people to be borrowers from Farmers Home forever? When does that subsidy stop? It seems to me that the legislative mandate in this area, and the followup administration at the Department of Agriculture, has been very unclear and very ambivalent. We ought to focus on that because there is a lot of money involved.

We have taxpayer's interests at issue in all of these areas; and we certainly need to take those into consideration.

MEMBERS OF CONGRESS ASKING TO SPEND MORE MONEY

Mr. Chairman, I will close by just embellishing on that point one bit by saying that last night, as I was preparing for this testimony, I was reading the letters that I had received from Members of Congress, both Senate and House, over the last 48 hours or so. I would estimate that 80 percent of those letters asked me to spend more money.

Somehow, we have to get beyond that; because we are never going to cut a $150 billion Federal budget deficit if we are going to have continual requests to spend more money on a whole variety of what may be very worthwhile programs. Somehow, we have to work greater discipline than that into this entire system.

Mr. Chairman.

[The prepared statement of Secretary Yeutter follows:]

PREPARED STATEMENT OF CLAYTON YEUTTER, SECRETARY OF AGRICULTURE

Mr. Chairman and Members of the Committee, I am pleased to appear here today to discuss the 1990 Farm Bill.

As we begin work on the next farm bill, let us put the existing Food Security Act of 1985 into context. The 1985 Act was developed in response to the large surpluses and uncompetitive prices that afflicted U.S. agriculture in the early 1980's. Weak global economic growth and an inordinately strong dollar had damaged farm exports. High loan rates encouraged farmers to produce for the government rather than for the marketplace. We guaranteed our competitors a profitable price floor and, predictably, they increased production and exports. In contrast, we reacted by idling ever more acreage and building stocks. As a result our exports plummeted, as did our market share.

The 1985 farm bill wisely reduced loan rates and tied them to market prices. We thereby signaled to our competitors that the United States would no longer underwrite their production expansion. Putting it another way, we evidenced our determination to regain our international competitiveness and recapture market share.

To further boost exports, the 1985 Act authorized and encouraged export promotion and credit programs. Domestic and foreign buyers were given increased access to U.S. supplies through the use of commodity certificates. Large quantities of Commodity Credit Corporation (CCC)-owned and producer-held stocks would have remained isolated from the market under previous legislation. Authority for annual acreage reduction programs was included to help restore balance between supply and demand, but taking land out of production was not the primary focus of the 1985 legislation.

The cost of farm programs was an issue, for that cost had been climbing inexorably as you worked on the 1985 bill. In fact farm program outlays were the fastest growing component of the Federal budget. You chose a course of action that was expected to reduce costs in the long run by expanding exports, reducing stocks, and gradually lowering target prices.

The 1985 bill worked remarkably well. Our agricultural exports bottomed out at $26 billion and 110 million tons in 1986. This year we expect to export 145 million tons of agricultural products worth about $38 billion. That is a substantial turnaround. The 1985 Farm Bill cannot take credit for all of the improvement by any means; changes in macroeconomic policy were unquestionably an important factor. But the 1985 Act can take credit for much of the improvement, and without it, the macroeconomic factors would have had a much smaller impact.

Stock levels are down dramatically as well; our grain and soybean surpluses have disappeared. The drought helped, of course, but so did the 1985 legislation.

Cash farm income is up too. In 1988 it reached $58 billion, an all time high. While government payments were instrumental in this income growth, they have now become a smaller portion of cash farm income.

All of this has given a big boost to the net worth statements of farmers, and that has made it possible for them and their creditors to sleep better at night. Total farm debt has declined to about $140 billion, as compared to $193 billion in 1983. Land values bottomed out in 1986, increased by 3 percent in 1987, and increased by another 5 percent or more in 1988.

This adjustment was not without cost, however. The increase in Federal outlays was not arrested until FY 1987, after reaching a record $25.8 billion in FY 1986. FY 1988 outlays were a more respectable $12.5 billion, though that is still several times the levels experienced a decade or so ago. FY 1989 outlays are projected at $13.8 billion, but $4.5 billion of that is disaster assistance related to the 1988 drought. Our budget analysts foresee outlays slowly declining, but remaining significantly above the long-term average level. We must ask ourselves whether annual outlays for price and income supports at levels significantly above the long-term average are defensible to the American taxpayer. My hunch is that such levels are unsustainable, and I believe we should begin now to look for a better way to ensure the economic well being of American agriculture.

That better way is to work on the problem internationally, and we are already doing that in the Uruguay round of multilateral trade negotiations. We now spend a lot of money to counter, directly or indirectly, the farm policies of competitor nations. If we can convince them to change their policies over time, we can afford also to change ours. Production decisions would then be based much more on market conditions than they are today, and much less on the whims of government. That would be a highly desirable change, and one that would be particularly welcome by taxpayers, including farmers.

In some nations, consumers now bear much of the cost burden of distortive farm programs, and if that can be changed they too will save money, and the overall demand for food will rise. Changes of this nature should clearly enhance our export prospects, providing we take steps to make sure that we are internationally competitive.

Recently I have heard comments from Capitol Hill to the effect that "We are going to write the 1990 Farm Bill in Washington, D.C., not Geneva!" I would not argue with that, for it is the prerogative of the Congress to legislate. But it would be foolish to attempt to legislate oblivious to what is happening in Geneva and elsewhere in the world. We operate today in a global marketplace, and it will forever be thus—unless we go back to the stone age! It is our privilege to be xenophobic, of course, but we'll shoot ourselves in the foot if we do so.

When I became U.S. Trade Representative almost 4 years ago, members of the U.S. agricultural community and their representatives here in Congress pleaded that I make a strong push to get agriculture on the GATT agenda. They correctly argued that agriculture had been ignored during the 40-year history of the GATT, and they expressed the hope that I, as an agriculturalist, could do something about it. I promised to try and, fortunately, we were able to get agriculture not only on the agenda of the Uruguay round, but as one of this country's foremost priorities.

We've had some stirring debates at the negotiating table, but as a result of meetings in Geneva 2 weeks ago the 96 participating nations are now postured to proceed vigorously in all 15 negotiating groups. We have the best chance ever to obtain major agricultural trade reforms on a worldwide basis, and we ought to give it our best shot. If we have any confidence in our agricultural productivity—and I do—this exercise should be our highest priority over the next 20 months.

I provide this as background, for it is important that we legislate carefully and skillfully. We should enact a farm bill that serves the fundamental needs of American agriculture as delineated in the 1985 Farm Bill, while also hopefully enhancing our leverage at the negotiating table. (The latter was not contemplated in the 1985 legislation, of course, because the Uruguay round did not begin until late 1986.)

If the Uruguay round is successful we will need to modify the 1990 Farm Bill accordingly—probably sometime during 1991. Will we then be writing the 1991 farm bill in Geneva? To some degree perhaps, but only if we believe it is in the best interest of American agriculture to do so. After clamoring to have agriculture on the agenda, this is certainly no time to turn tail and run! Were we to do that we'd be relegating ourselves to costly economic warfare with our export competitors forever. And the American taxpayer may not be in the mood to support gigantic farm subsidies indefinitely.

If the Geneva negotiations are successful we'll be writing a segment of the European Community's 1991 farm bill in Geneva, rather than in Brussels. That is obviously one of our objectives. We'll also be writing a major segment of the farm bills of Canada, Brazil, Argentina, Australia, and several other countries in Geneva, and we want to do that too. If we wish to have an impact on *those* farm bills, it would be unrealistic to expect the negotiations to have no effect on our own legislation. What we seek is a balanced outcome that will be beneficial to all.

Permit me now to be somewhat more specific with respect to the forthcoming legislation. One of our objectives next year should be to reduce the rigidity of our present programs. Farmers want and deserve more flexibility in what they plant, in the operation of their acreage reduction programs, et cetera. If properly designed, that additional flexibility should result in increased economic efficiency and long term benefits to them and to our society.

We should also reconsider target price relationships. Those relationships presently tilt toward the production of certain crops, and against the production of others. There is no evident economic rationale for this, and the distortions have hurt us in some international markets—soybeans, for example. We in the administration will focus on this issue in the coming weeks, and we'll have recommendations for you later in the year.

The farmer-owned reserve and CCC-stocks have helped to moderate the effects of production variability here and abroad. But too often farmers have produced for government-financed storage rather than for markets. It has been easy to accumulate stocks under government programs; it has been difficult to release them.

Stocks are needed to cushion unanticipated production shortfalls. However, we need to reexamine our reserve and CCC inventory policies to determine how large stocks should be, how they should be financed, and how their release to the market can be encouraged when supplies tighten.

The potential cost of these programs will be an important element of your deliberations and mine over the coming months. We must find ways of saving money without unilaterally disarming in the international marketplace. Some have suggested that we do so by raising loan rates, but that would be penny-wise and pound foolish. Our competitors would be ecstatic if we were to make that mistake again! The thrust of the 1985 Farm Bill was to regain market share. We've worked hard at that, and we've had considerable success. It would be tragic to throw away all that progress by setting loan rates at levels that will stimulate competitive production all over the world.

For those same reasons we should look askance at saving money through large annual acreage reduction programs. Our competitors love seeing those acres out of production! Acreage reductions clearly work to their advantage; one must seriously question whether they work to ours.

We do need to evaluate the "safety net" element of our present programs. Are we providing a safety net where it really isn't necessary? If so, how can we remove it in those situations? Is there a feasible way to pinpoint income supports with greater precision than in the past. These questions have been raised in recent years, but have not yet been answered satisfactorily. We ought to try again in the coming months.

And we certainly ought to avoid the chaos and additional cost of supplementing crop insurance with emergency disaster programs. If we bail out disasters every year with special legislation, we'll never be able to make crop insurance work. If crop insurance has shortcomings (and I believe it does), let's try to fix them—in the 1990 Farm Bill or through separate legislation.

An eternal complaint from farmers is that price and income support programs have become too complicated and administratively burdensome. They're right! I suspect that is partially attributable to the legislation, and partially to the way it has been administered. It is my responsibility to control the latter, and I intend to do so. You can make a contribution to the former, and I hope you will in the 1990 legislation.

Aside from income support programs, the 1990 Farm Bill must devote considerable attention to environmental issues. This Committee can deservedly take pride in the conservation provisions of the 1985 act. The Conservation Reserve has already taken more than 28 million acres of highly erodible land out of production, and that is a major achievement. We estimate that this program alone is reducing soil losses by 300 million tons per year compared to the early 1980s, and we'll be able to do more as we move toward a goal of 40 million acres in the program. The Conservation Reserve is, however, costly and with our current tight supplies we need to investigate ways to achieve similar conservation goals with other tools as well.

Requiring on-the-farm conservation plans as a condition to participation in income support programs was a major advancement too, and it will pay important conservation dividends in the future, as will the Sodbuster and Swampbuster provisions.

However useful these new conservation tools may be, we must recognize that so long as we link income supports to price supports we'll continue to provide a tremendous stimulus for farmers to produce. Generating huge surpluses not only costs taxpayers large sums of money, but it may have adverse environmental consequences as well—in levels of soil erosion and in ground water quality, for example. If we are to have an environmentally sustainable agricultural production system over the long pull, we must find ways to diminish gradually the nexus between income supports and production levels.

I will expect the Department of Agriculture to be sensitive to environmental and other intergenerational concerns during my tenure, and to balance those interests carefully and sensibly. We'll do that with or without a legislative mandate because it is the right thing to do.

Finally, it is obvious that we will all have to devote more attention to food safety in the months ahead. You and I know that we have the world's safest food supply, but we must communicate that to the American public, and we must be credible. That should be done through information and education, not via the scare tactics that have permeated the media in recent weeks. Educational efforts are not always glamorous, but they are the heart of a democratic society. We'll assess whether any additional legislative authority would be useful in meeting this challenge.

I look forward to working with the Committee in the development of 1990 farm legislation. It would be advantageous for everyone to have this bill passed as early as possible—even this year if we could.

The CHAIRMAN. Well, I will not touch on all the points yet, although I have a feeling, looking around this table, that by the time we get done, they all will be touched on.

But let us just go to some of the international trade questions, the GATT negotiations. We have Geneva and Montreal behind us. The process itself will continue for at least 2 years; but we are going to have to develop a farm policy for the 1990's

Now, you have mentioned in your testimony that you did not want us to be either parochial or xenophobic in our farm bill as we write it. But at the same point, we are writing a farm bill for the United States. We are not the negotiators in GATT.

I know that what we do here can affect the negotiations. And as I see it we have one of two choices. We can either try to anticipate an agreement at GATT, which may never occur, and write a farm bill to go along with it. In effect that means we agree with the outcome before the negotiations are even over. Or we could draft an aggressive, export-oriented bill that will keep some pressure on the Europeans to negotiate.

Should not we really be doing the latter? Should we not have an export-oriented bill that says there is no advantage on the part of the Europeans to not negotiate? We are not going to give away the store without quid pro quo in the negotiations.

Secretary YEUTTER. Basically, Mr. Chairman, I would prefer that you do the latter. Now, obviously we need to appraise this situation on a continual basis as the negotiations unfold and as your legislative process unfolds. This depends to some degree on when the 1990 farm bill is passed.

If it is not passed until the summer of 1990, we may know a lot more about the probable outcome of the negotiations; and might be able to build some of that into the legislation. If, on the other hand, the negotiation passes much earlier than that, clearly we ought to follow the latter course.

My judgment, by the way, is that the sooner we can pass a 1990 farm bill, the better. If I had my druthers, Mr. Chairman, I would rather see you pass it this year than next year.

The CHAIRMAN. Let me just follow up. You say we should have the farm bill export-oriented. But I wonder if we have already sent a different signal.

Yesterday, Senator Kerrey and others wrote to you because an administration official testified that EEP sales had been suspended. Now, I know Senator Kerrey is going to go into this more. You have talked about letters you have received from Members of Congress. I hope you will pay special attention to those letters. Because, if we are really suspending EEP then to that extent, I think we have handed the Europeans a major concession without them giving up anything in return.

It also seems to be administration policy to continue reducing target prices through the 1990's. If that is going to be a unilateral step, then we ought to be getting something in return. So here is the question. Number one, what is the policy? Second, are we going to continue the EEP program or not? Or are we going to say, "Guys, you just sit there long enough in Geneva, and we will negotiate it all away for you anyway?"

Secretary YEUTTER. I am happy, Mr. Chairman, to comment on the EEP program, because there seems to be some misunderstanding of exactly what that situation is. So I will try to clarify that as best I can.

First of all, as you well know, EEP allocations and approvals are made well ahead of the actual use of those funds. And to the degree that those commitments and allocations have been made, we will obviously do a follow-through. So that is not at issue in this case at all.

What is at issue is whether and to what extent we should approve additional allocations of export-enhancement funds under the stock and weather conditions that prevail today. This does not really have anything to do with the GATT negotiations, because this is not a long-term issue; it is a short-term issue.

We have a drought in the Midwest in a number of areas. I was in Kansas with Senator Dole and Senator Kassebaum on Friday; and we simply have to be responsible and prudent in the handling of this situation, with those conditions being what they are today.

The CHAIRMAN. But the basic question is, has there been a decision made that we are not going to do more EEP programs? I understand that those commitments that were made will go forward. But do the trading partners or the negotiators—I have not seen an awful lot of partnership—the negotiators in the other countries, have they been given a signal now that the United States will cut off EEP? Because if this is so, they have won a big issue, and the pressure to negotiate has really been cranked down.

Secretary YEUTTER. Well, they should know that once new crop supplies are in, we very likely will pursue with vigor the EEP program. But I cannot speak definitively to that, Mr. Chairman, unless you can tell me whether or not it is going to rain. I do not believe anybody in this room knows whether or not it is going to rain over the next few weeks. We have to be careful about that.

The CHAIRMAN. On the question of rain or not, that is not in our control; but the use of the budget does come within control of the administration and the oversight of this committee. Is the determination going to be made as a weather one and a trading one, or is the determination going to be made as a budget one, irrespective of what the weather and trade conditions are?

Secretary YEUTTER. No. The budget question is irrelevant to this discussion, totally irrelevant, Mr. Chairman. This is a question of stock levels and weather conditions.

The CHAIRMAN. What about the continued reducing of target prices through the 1990's? I mean, is the administrations's proposals on that just giving up yet another negotiating tool?

Secretary YEUTTER. Mr. Chairman, we will, as you suggested in our meeting the other morning, we will come back with specific administration recommendations on issues like that as the farm bill discussion unfolds.

Obviously, this is an issue that has budgetary implications; and it is an issue that may have to be faced in the 1989 farm bill, well ahead of the 1990 farm bill. Senator Lugar mentioned the so-called triple base proposal, which would be at least a partial response to your question; because were the Congress to adopt what people refer to as a triple base proposal, it would not be necessary to reduce target price levels.

The adjustments would be made by changing the bases on which payments are made. I happen to like that proposal conceptually. We need to work on it some more; because there are some open questions, as Senator Lugar suggested, in terms of how that additional base is to be used; whether farmers should be permitted to grow anything they wish on those bases, or whether there should be some limitation as to what crops might be grown.

But the answer, Mr. Chairman, is that I am open-minded on that question. We may be able to find ways in the triple base program, or something approximating it, that would not require us to lower actual target price levels. But it is a budgetary question; and it is also a question of what the level of income supports for American agriculture should be over the next few years.

The CHAIRMAN. I must say, what I want to hear from the administration, and I want to hear very specifically, is what kind of things do we do, not only for trade development, but how to expand it. We have an enormous balance of payment deficit in this Nation. We have a real problem. About the only bright light we have had over the years, with a couple exceptions, has been our agricultural trade, where we have had a surplus.

I would think that with all of our problems, having become the greatest debtor nation in the world, at least in actual dollar amounts, that we ought to be pushing on something that works—agricultural trade. I realize it ties into a lot of other areas. But I would ask the administration to give some very specific, very specific, recommendations to this committee about how you would do trade development, how you would expand programs of trade in our various commodities.

We do not export many cars. We do not export many TV's. But we are able to export agriculture. Before that disappears, tell us how best to make it work.

Secretary YEUTTER. We will be delighted to do that, Mr. Chairman. I do not think there is anybody more export oriented than I.

The CHAIRMAN. No. I understand. And you and I have discussed this a number of times before. But if I could pick two or three major issues that are going to be in the 1990 farm bill, one of them is definitely going to be how we are going to handle exports.

We have also heard a lot of talk about the need to improve producer planting flexibility. We talked about it during your confirmation hearing. Again, of the "musts" on the short list of things that are going to be in the 1990 farm bill, that is certainly going to be one of them. One obvious thing that helps us on that is it allows producers to react to the market rather than program signals. These producers can start producing for the market, not just for the program. Because oftentimes, the program, set in place years in advance, is totally out of sync with the market. Flexibility allows good rotation practices. I am getting very concerned farmers are producing just for a program. We are depleting our soil, we are not rotating crops, and so on.

But you have also told us, and quite candidly, that one of the big constraints is going to be budget constraints. Now, allowing planting flexibility limits the ability to manage stocks; it has an effect on the nonprogram stocks of interest to a number of Members around this table.

So the question is this: Given that Congress is likely to try and hold target prices at 1990 levels, given budget constraints and given the nonprogram crop problem, what do we do? Is base protection enough, or do other alternatives have to be considered?

Secretary YEUTTER. I really believe, Mr. Chairman, that all of that points toward the adoption of something like a triple base program; because that will provide some of the flexibility that you have just discussed, and will provide it in a manner that will also permit some budgetary discipline.

The CHAIRMAN. I would urge, and I realize you are going through this review in your own Department, I would urge you in that particular area that you give us your best thinking and best recommendations as quickly as possible. It is going to be an issue that will be the subject of hearings in this committee. It is certainly going to be a matter of debate. And it is an issue where you are going to have an awful lot of views based on the areas represented around this committee. But we all know we need it.

I have an awful lot of questions. But I just want to raise one other area and then I will to yield to Senator Lugar.

When you look at the next farm bill, the staff has mentioned to me that we will also want to consider the fact that dairy will be in there somewhere. In some ways, the 1985 farm bill has been impressive. The cost to the taxpayers are down dramatically. Product purchase totaled nearly $1.2 billion in fiscal year 1987. Two years later, in fiscal year 1989, they were down to $500 million. But we have a scarcity of powdered milk and cheese for domestic and international feeding programs. There is no more cheese for the School Lunch Bonus Program. It has had its effect on several parts of the country, not the least of which is my own.

In fact, if we have continued price cuts in the Northeast, I think we will see the end of dairy there, which I would hate to see. So, do you have a specific proposal for the dairy section of the 1990 farm bill at this time?

Secretary YEUTTER. Not yet, Mr. Chairman, obviously. But we will certainly be working on that. In fact, I have had discussions with a few Members already, including yourself, about the desirability of exploring that issue relatively soon.

I had one Member approach me last night, Mr. Chairman, saying that we were going to generate too many dairy surpluses again. We have to start figuring out ways to move it into the world market; and how about some PL-480 funds for nonfat dry milk?

We get cross-currents in this area, as in other areas; but we will certainly work on the issue, and we will work with you; since that is of considerable interest to you.

The CHAIRMAN. Can we do it simply by lowering price supports? Because at some point, we have to ask, "How low can you bring the price supports?"

Secretary YEUTTER. Well, I would rather not formulate judgments on that today, Mr. Chairman.

The CHAIRMAN. I yield to Senator Lugar.

Senator LUGAR. Thank you very much, Mr. Chairman.

I would like to follow up with a comment that you made in your testimony, Mr. Secretary, on the Farmers Home Administration.

Senator Helms commissioned a study last year. It was very helpful. Our overall understanding is, because of the complexity of the subject, that it did not receive the attention, in my judgment, it should have. And so your highlighting it brings it back to the fore.

As I recall, that study indicated that $36 billion worth of loans by Farmers Home Administration are unlikely to ever be repaid, that credit judgments or abandonments or whatever have led to the fact that $36 billion is not going to be repaid and, at some point in the budgets of this year, next year, or many years, that $36 billion has to be reflected, often in chunks of $4 or $5 or $6 billion a year. That is a sizable sum of money.

I do not think the American taxpayers have any idea that farm credit programs, at least in that one area, and quite apart from the other ones we have been dealing with, have led to $36 billion, which is unaccounted for. And essentially, as you point out, the policies, programs, criteria and what have you continue on much as before. So that conceivably $36 billion, even as we sit here, may be adding up to a higher figure.

It sort of dwarfs almost everything else we are talking about today and, because it does, it is sort of left entirely out at the side almost as a nonissue in agriculture. But it is a big issue. It really has to be dealt with in this farm bill because we have been to the wall already on the Farm Credit System. I am encouraged that the people that are now responsible for that are making some important decisions. I hope the initiative throughout the country toward efficiencies, mergers and what have you is continuing, and I think that that is so, although there have been some setbacks in some areas of the country.

But the Farmers Home issue, I hope that you will include in whatever proposals the administration makes, as well as a good bit of information as to the enormity of the task that faces us not only in this farm bill, but for many years to come, to work our way through that debt.

Secretary YEUTTER. That is one of the reasons I mentioned it this morning, Senator Lugar, and I am very pleased that Senator Helms had such a personal interest in this area too. Because there is a tendency to focus so much attention on price and income support programs, and then ignore the lending activities which have price tags in the same ballpark. And those losses are simply enormous.

Now, a lot of that, as you well know, Senator Lugar, is due to the economic turmoil of early in the mid-eighties, and hopefully we are past the worst of that, and that will help Farmers Home as well as everyone else.

But, at the same time, the Congress and the administration have simply got to decide what kind of programs we are going to have in that area and how they are to be administered.

My impression from having been here only a few weeks is that there is enormous ambivalence on that score. This is beginning to generate more and more unrest out in rural communities too. You have the successful farmers out there beginning to say how long am I supposed to subsidize these fellows down the road who are borrowing money at a fraction of what I am paying? How long are you folks in the Federal Government going to keep rolling over those loans? Are you going to permit these folks to borrow at 5 percent interest for the next 30 years? It seems to me that is a legitimate question, and it is one that has to be answered by this committee and the House Agriculture Committee, and by us.

We are going to bring in a topflight management team, Senator Lugar. I am determined to do that. So we are going to run Farmers Home as well as it can be run, and that is the first priority.

But we also have to provide guidance and direction to those managers as to what we, the U.S. Government, expect them to do.

Senator LUGAR. To what extent will any of the $36 billion be taken care of in the budget that the USDA is presenting now? Is it $6 billion in this one or——

Secretary YEUTTER. I believe it is even more than that. But I am not sure whether our budget folks are here today. I will ask them to provide a specific answer.

But I believe it is higher than that. If somebody is here, I will let them bring the answer up, Senator Lugar.

[The following response was subsequently supplied for the record:]

Question. To what extent will any of the $36 billion be taken care of in the budget that the USDA is presenting now? Is it $6 billion in this one or——

Answer. Of the $36 billion losses reported outstanding by the GAO in their 1988 report on FmHA financing, $16 billion was appropriated in fiscal years 1988 and

1989 to cover fiscal years' 1986 and 1987 losses. Of the remaining $20 billion, which is composed almost entirely of projected write-offs of delinquent loans, $1.8 billion is requested for reimbursement in the fiscal year 1990 budget. The remainder, about $18 billion, will be reduced each year by the amount included for actual write-offs in the congressional appropriation for losses.

Senator LUGAR. But, in any event, that is sort of a chunk of money that is not going to be new income for farmers; literally we are working our way through the backlog.

As I understand, the only reason why we are not dealing on the floor of the Senate now with something like the S&L crisis in Farmers Home is that, year by year, it has been taken for granted about $6 billion or so would be swallowed. So, even if you have $36 billion, you work through that in 6 years. By that time, of course, you might have an additional 36, if the thing was badly run.

Secretary YEUTTER. That is correct.

Senator LUGAR. But it is here, this sizable chunk, right now, of our budget.

Secretary YEUTTER. That is correct. What it is, if I remember correctly, Senator Lugar, is a 2-year lag time. In other words, the fiscal year 1990 budget will pick up the Farmers Home losses for fiscal year 1988.

Senator LUGAR. So each year that is with us.

Secretary YEUTTER. Yes.

Senator LUGAR. Now, the assumptions that have been made by the Budget Committee, these may or may not have been concurred in by USDA, but let me just ask.

I have read it is assumed that, of the $1.9 billion we must take a look at in the short-term farm bill, $900 million is assumed to be saved by the administration's suggestion that advanced deficiency payments should be increased from 40 percent to 50 percent which has the effect of moving the fiscal year 1990 payments for the 1989 crop to fiscal year 1989. In short, 10 percent more of the deficiency payments will be paid before September 30 so the deficit currently will be greater, but the 1990 deficit in the summit will be $900 million less.

Now, understandably, those persons in the public who have read about that face a certain amount of cynicism, that there is something going on here that is unusual. And why is this a good thing in terms of public policy? I appreciate it, in terms of the summit people sitting there trying to shave this thing down, but obviously if $900 million is paid out by the taxpayers early on, the taxpayers lose the interest on $900 million. And I just question, you know, is this a policy of new cognizance, or what comment can you make about it?

Secretary YEUTTER. Well, that is a question better posed, Senator Lugar, to your colleagues on the Senate and the House Budget Committees and to my colleagues at OMB, because it was their agreement that resulted in this.

As you know, there were other similar decisions that are encompassed in that budget agreement. But you are correct, that falls into the budgetary accounting domain. It happens to work to the benefit of farmers in this case because they will have access to those funds earlier and, in fact, we made that announcement yesterday.

Senator LUGAR. Well, I have no doubt that that is right. That is the popular decision with regard to recipients. It just seems to me, even in this committee, someone has to ask a question like that from time to time.

Secretary YEUTTER. Obviously, Senator Lugar, it does not solve the budget problem. In other words, those kinds of solutions do not provide budgetary discipline which, in essence, means that the question of budgetary discipline is postponed another year. You and others, including me, will be faced with a tougher decision in fiscal year 1991 as a result of these kinds of decisions being made in fiscal year 1990.

Senator LUGAR. Well, technically explain, if you can, another $420 million assumed to be saved through taking the Farm Credit System bonds off budget. Explain, if you will, how that works.

Secretary YEUTTER. The viewpoint of the Office of Management and Budget was that these kinds of expenditures would be a liability to the American taxpayer and ought to be on the budget rather than off budget. It was the viewpoint of a number of folks on Capitol Hill that it would be better for the moment to keep them on off budget because that would help in meeting the Gramm-Rudman-Hollings objectives for fiscal year 1990.

Apparently, there was an agreement to repeal the legislation that made these expenditures a taxpayer liability so they can be taken off budget. But it may still be a legitimate question for the future. In other words, if those expenditures are actual expenditures of Government, of the taxpayer, and must be brought back on budget, then they will exacerbate the budgetary question in fiscal year 1991. Once again this is an issue of budgetary discipline that may simply have been postponed for an additional year.

Senator LUGAR. Well, if I recall from the farm credit debate, essentially this is the money that was interest being paid by the Federal Government on bonds that are to be repaid by the system.

Secretary YEUTTER. That is correct. That is the way it was before fiscal year 1990, but a change in the legislation brought both interest and the bonds on budget.

Senator LUGAR. And with the current interest. And so apparently that is to be put off budget along with the bonds themselves.

Secretary YEUTTER. That is correct. Or at least that is the decision at the moment.

Senator LUGAR. Now, if both of those decisions, the 420 and the 900, then occur, that leaves then $600 million as we discussed. I appreciate your responsiveness on the triple base idea and the chairman's colloquy with you on that.

My own suggestion would be that the Secretary have the discretion from year to year to name those crops that could be utilized in the third tier. It seems to me an attempt to write historically into this bill all of the contingencies of crops is almost bound to lead to omission of something or toward a situation in which it makes bad public policy because of the people insisting upon the right to plant have a problem.

But you have to, I suppose, finally come down to one and we will have to dispose of it. And there are, I guess, about three ways you can do it in that respect.

Secretary YEUTTER. We will certainly give that some additional evaluation, Senator Lugar. But my proclivity would be to have maximum flexibility in that third base area.

There will be some who will object to that, of course, for fear that we will generate surpluses in some of the nonprogram crops if that occurs.

But it seems to me that we have to believe in competition in this country, if we are trying to have more of a market oriented system. That is simply a reflection of competition.

So my clear inclination, Senator Lugar, would be to provide full flexibility on that third base unless somebody can persuade me of the merits of doing otherwise.

Senator LUGAR. Finally, Mr. Chairman, I would ask, and I would appreciate the Department sending over rapidly to members of staff the planting intentions and these monthly estimates and what have you.

I know last year it was especially helpful to obtain from USDA the weather projections, the moisture deficiency projections. These may be coming regularly to somebody. I do not see them often, and I am sure that other members of the committee probably have an interest in this too. We are all very sensitive, as we should be, about the drought problems of last year. And we are still mindful of deficiencies in some part of agricultural America now.

So, to the extent that this information could be made regularly available, that would be helpful to all of us in meeting our responsibilities.

Secretary YEUTTER. OK. We will be delighted to try to be as responsive as possible.

Senator LUGAR. Thank you.

Secretary YEUTTER. Thank you.

The CHAIRMAN. Senator Heflin, or do I detect the Alabama memorial cigar down there at the end of the table? [Laughter.]

Senator HEFLIN. Well, you are going to find out about it in this coming week when we are in the airplane.

The CHAIRMAN. I can hardly wait. [Laughter.]

Do I have to eat grits for breakfast when I am down there?

Senator HEFLIN. Well, we are going to let you get by just having a few chittlings. [Laughter.]

The CHAIRMAN. Go ahead.

Senator HEFLIN. Mr. Secretary, you basically have indicated in the beginning, with a few instances of fine tuning, that the present farm program you felt was working. And I suppose, following up on questions that Senator Leahy and others have asked you, you have not yet on specific—at least on dairy, you mentioned to him, and I had to leave. We had phone calls from the floor and other things that required some attention.

But have you formulated on various programs any position that you would like to articulate today or are you in a general principle of posture? I would ask you that rather than going into a lot of programs that I might want to go into with you.

Secretary YEUTTER. Yes. It is much too early, Senator Heflin, to be very specific about the programs. As you know, a key player in this arena will be the Under Secretary for International Affairs and Commodity Programs, and we do not have that individual onboard yet. Hopefully, that will take place later today.

But I want to get Mr. Crowder heavily involved in this process when we have time. We want to see what emerges from all the hearings, including the one in Alabama. We will take the viewpoints of everyone around the country in accord before we formulate any specific recommendations that will come back to you in the form of administration recommendations.

But I would say that your general description is an accurate one. In other words, it seems to me that what we should all be doing together is fine tuning the 1985 farm bill. I see no reason, at the moment, to make major changes in most of these areas. I doubt that you are going to hear anything around the country that will suggest otherwise.

We may well need to make major changes in 1991, after the Uruguay round concludes, but that is all conjectural at this point, and that will not be relevant in any major way it seems to me to the deliberations that you will have in the 1990 farm bill.

Senator HEFLIN. In regards to export enhancement programs, do you consider that they are working well?

Secretary YEUTTER. Yes. I would say the Export Enhancement Program is accomplishing generally what it was set out to do which, as I see it, Senator Heflin, would be to rebuild America's market share in some of these products; regain market share from some of our competitors who have been capturing it through subsidies of their own. It was also there to provide leverage in the Uruguay round, to get some of our trading partners to the negotiating table and to keep them at the table negotiating seriously the rest of the way.

EEP has been good leverage in Geneva. It was good leverage in Punta del Este to get agriculture on the agenda, if we continue to use it for that purpose. It has helped to regain market share. As I indicated earlier, our exports are rising and our market share is also rising. So I say it is doing the job.

What I hope, however, Senator Heflin, is that we do not get our folks addicted to export subsidies, but it can be very addictive very quickly as they have been in other countries around the world. Export subsidies are not sound trade policy. What we want to try to do is negotiate away export subsidies everywhere rather than have Treasury versus Treasury competition in this area.

So we are using them tactically I believe that is the right move, we should continue to use them tactically until the Uruguay round concludes. Then I hope we can phase them out here and everywhere.

Senator HEFLIN. Well, in regards to exports, there was put into the farm bill program on a marketing loan for cotton. And frankly we have been greatly disappointed with the way the administration has exercised, or failed to exercise the marketing loan as it would apply to cotton, allowing surpluses to accumulate over a period of time.

Now, it is my understanding that since you have been there, you have reviewed it, and there will probably be some action that will be taken in regards to the marketing loan pertaining to the cotton program in the future.

What is your general concept of the marketing loan concept relative to it with some protection against too much payment by the Government in other crops as based upon your observation? I do not know whether you have really looked at the cotton program and can say whether or not it certainly had a deterring effect there. When it first started out, we sold cotton, got rid of surplus. The foreign competition reduced planting substantially as a fear of the marketing loan, and it brought about, in my judgment, without any—well, it brought about early in the beginning—now, it had not been used, in my judgment, properly. And I think people that have watched it—it has not been in the last couple of years, 18 months to 2 years—but what is your—in the event that you could give some type of protection versus too much expense to the Government that could come, what is your feeling relative to that concept as a program for crops, including cotton?

Secretary YEUTTER. The marketing loan concept has generated a lot of criticism in recent months, Senator Heflin, because of the unfortunate experience in cotton to which you just made reference.

It may well be that that is unfair criticism because it may be a reflection of the way the program has been designed and administered rather than the reflection on the concept itself. In other words, to me, the jury is still out on whether the marketing loan is a sound technique to use in international competition.

Some have condemned it to oblivion already. I am not in that camp, Senator Heflin. I still have an open mind as to the role that marketing loans might play in the international sphere and in our farm policy picture.

That is one reason why I want to see whether we can fix the cotton program so it works the way it is supposed to work. That is why I met with cotton industry representatives and called our people in, and that is why we are out with some proposed changes now in the Federal Register.

I would really like to see if we cannot structure that program the way it ought to be structured, and then see just how much the cost is going to be, and see how well it works in terms of capturing market share internationally.

So it seems to me it is premature to crucify the marketing loan as a concept. It may also be premature to judge it a success. So there is a question mark on its role.

But let me then go on to say this, Senator Heflin. The marketing loan in essence is an export subsidy program. It has some of the same characteristics as the EEP program, but also some advantages over the EEP program because it is much less confrontational in its modus operandi.

So if we are going to have export subsidy programs in this country, it seems to me that, conceptually, the marketing loan has some significant advantages over the EEP program. However, if we succeed in the Uruguay round in achieving the kinds of disciplines in the agriculture trade that we would like to see, and if thereby we can phase out our EEP program, we obviously would not want to put in place a marketing loan and, in fact, our trading partners would not permit it. If they are going to phase out their export subsidy programs of all kinds, we are going to have to phase out our export subsidy programs which would include the subsidy dimensions of the marketing loan concept, as well as the EEP program.

If, on the other hand, we do not get the kind of discipline that we seek in the Uruguay round, then, it seems to me, that we ought to very carefully examine the possibility of expanding the market loan programs to crops rather than just rice and cotton. We should do that only after a very considered evaluation of what happens in cotton and rice over the next 2 years. But we should know a lot more by the end of the Uruguay round as to how the cotton program is working and the rice program is working, and then we can make our own judgment in the executive branch and in the Congress as to whether we ought to abandon market loans or expand them.

Senator HEFLIN. Well, the concept, that if you are going to have subsidies, it is heck of a lot better to pay them to Americans and American farmers than to foreigners. I mean that is basically who is the recipient if you are going to have them. If you are going to have subsidies, it comes down to who is going to be the recipient? Is it going to be American farmers or, on the other hand, is it going to be foreigners who you might be with in trying to get them to purchase American commodities?

So I think that is something to be considered.

Well, I will stop here and let others ask questions.

Secretary YEUTTER. You are right, Senator Heflin, marketing loans are an excellent device for getting people's attention around the world. Clearly one of the strong points of the marketing loan concept is that a marketing loan can make us very competitive very quickly in international trade. That is what makes it an appealing mechanism if we are going to have all-out economic warfare.

Senator HEFLIN. Well, let me just say I do know when to extend this loan, but if it had been administered, and if it had gone forward, and instead of allowing the surpluses to accumulate as the intent was to do, I think we would now be in a position of being able to evaluate it properly. And I hope that the action that you as Secretary of Agriculture take as you are proposing will not be too meager. I hope that we will give it a test relative to it, and let us do something, go ahead and see how it is going to work.

The CHAIRMAN. Senator Boschwitz. It is so good to have you here.

Senator BOSCHWITZ. Thank you.

Mr. Secretary, I was most impressed by the fact that you spend your evenings reading letters from Members.

How many letters did you receive in the last 48-hour lot?

Secretary YEUTTER. A lot. A stack about that big. And I, of course, spend my evenings reading proclamations made by the chairman of this committee and——[Laughter.]

The CHAIRMAN. That is because he knows there is going to be a quiz on it.

Secretary YEUTTER. I also have to read many new regulations from the USDA.

Senator BOSCHWITZ. I note that you took a different view recently about the 1990 farm bill and said that we should get on with it. Well, earlier on, you had said we ought to wait for the 1990 GATT negotiations to conclude. And it really is not clear to me what changed your mind about that.

The agreement that was reached among the various GATT members I thought was rather sparse and certainly not a basis for moving ahead with the 1990 farm bill necessarily in my judgment, particularly when the GAO reports, and certainly most farmers report that the 1985 farm bill is working.

Why would it not be appropriate to extend the farm bill by another year, and why the change in your attitude, if I may ask?

Secretary YEUTTER. OK. I really have not changed my mind at all. Somehow or other, some of my statements were misinterpreted in the agricultural press.

Senator BOSCHWITZ. Your earlier statements?

Secretary YEUTTER. Yes, my earlier statements. What I was really saying at that time, and I believe that much of this came from my comments here at my confirmation hearing, was that I made a statement something to the effect that we cannot put in place the institutional structure for American agriculture in the nineties until we know the outcome of the GATT negotiations. And that is true, we cannot.

But, at the same time, we have to legislate in the interim, and it is a question then as to what we do before the negotiations conclude. One possibility is to have a simple 1-year extension of the existing legislation. That would be satisfactory to me.

Another possibility that has been suggested here is that we go ahead and proceed with a 4- or 5-year bill which would be some modification presumably of the 1985 legislation. That would be satisfactory to me also.

It just seems to me, however, that we have to be fully cognizant that whatever we do in 1990, we are likely to have to change it appreciably in 1991 if the negotiations succeed. I really believe we have a better than 50–50 chance of making major progress in Geneva by the end of 1990.

Senator BOSCHWITZ. You know, that progress is really very important to American agriculture, in my opinion, not only American agriculture, but to farmers in the Third and Fourth World Nations and all nations.

Why does a 1990 farm bill enacted for a 4- or 5-year period in advance of these negotiations, why does that enhance our opportunities in the GATT round? Would an extension in the 1985 farm bill not be just as good or better? And are there some tools that you need or are there some tools that we should give the negotiators for that GATT round that are not provided by the 1985 farm bill?

Secretary YEUTTER. I would say that, fundamentally, the tools are adequate, Senator Boschwitz. As you know, the Omnibus Trade Bill last year provided some potential leverage on the marketing loan side that Senator Heflin was just talking about.

We have the tools of the Export Enhancement Program already available. We have considerable flexibility in how we use loan rates that provides leverage to us, and obviously macroeconomic policy provides some tools as well.

So I would say that all of the negotiating tools are available, as long as we do nothing to diminish them in this or any other legislative policy.

But as to whether you do a 1-year bill or a longer bill, it seems to me that depends not only on the negotiations but also on the needs in some of the other areas. When we are talking about environmental concerns, the handling of the Farmers Home lending programs, and a whole host of these other nontrade related areas, there may be persuasive reasons to do a longer term farm bill to meet some of those needs and not have the negotiations be the controlling factor.

Senator Boschwitz. I agree with that aspect of the answer that Senator Lugar pointed out and that you pointed out in your original testimony, some of those things, particularly environmental matters, I think we do have to get a go ahead with.

But I think, to be quite frank, that between the trade bills and the marketing loan provisions that you have in that, the EEP provisions of the 1985 farm bill, the ability to see loan rates become competitive on world markets. And then, if we pass something, we may be giving—if we pass something to deal with those kind of things, laying aside, for a moment, the FmHA problems, the environmental problems, the other types of problems, we could well throw some sand into the gears of those negotiations.

At least in my experience here in the Senate, this is the first time that anybody has come and said there is a 50–50 chance, come and said that there is even that close to a chance. We have had some very serious trade practices by the Europeans and others that have upset world trade.

In my time here on the Senate Agriculture Committee, the Europeans have shifted from being the world's largest importers to the world's largest exporters, at least in dollar volume, perhaps not in tonnage. And when you get involved in the farm bill, you begin to try to outdo one another here on this committee, and I fear that we are going to impede the possibility of getting a good GATT agreement which I think would be of extraordinary benefit to American farmers.

All my farmers say "just give us a level playing field." And I can understand the Europeans not wanting that because they have farms that are not much bigger than this room, I suppose. And it is hard to be efficient on that basis, and so they have to have a different kind of consideration. They have also different kind of considerations that date back to times of hunger that they remember in their lifetime.

But why not just extend? If you had a choice, considering the fact that the GAO report, with which not everybody agrees, said that the farm bill was moving forward. If you had a choice, would you say that perhaps we can build a little additional flexibility into it? I understand that you made some kind comments about decoupling prior to my coming here, and that might be reflected by this triple base approach.

If we gave some additional flexibility and did not tinker too much with the program, would you consider that to be more beneficial or more preferable than a whole 1990 farm bill?

Secretary Yeutter. Well, I would like to see the additional flexibility, as a matter of fact, Senator Boschwitz. I think that could be very helpful.

My guess is, Senator Boschwitz, whether we are talking about a short-term extension or a longer-term extension, it is probably going to look about the same in the price and income support area. In other words, I would suspect that this committee will not make major changes in the 1985 farm bill. It will probably make some of the kinds of things we just talked about, shifting into a triple-base program, for example.

So, whether it be a 1-year extension or a 4-year extension, it is probably going to look about the same.

Senator Boschwitz. Well, I hope you are right. With a 1-year extension, there may not be a sense on this committee that we have to outdo one another in expanding EEP, for instance.

I agree with you that it is not sound policy in the long run, but we have to have it to respond properly. But if we are going to deepen the length and expand that program, we are going to give cause to some of our opponents in this whole business, you know, for continuing their own subsidies.

Secretary Yeutter. I appreciate your sensitivity, Senator Boschwitz. The negotiating environment must be considered as we legislate in this country. We can ignore it if we wish, but we do so at our peril.

We have a lot at stake in those negotiations. American agriculture has a lot at stake in those negotiations, and we simply have to have the good judgment to do this job skillfully.

Senator Boschwitz. Thank you, Mr. Chairman.

The Chairman. Senator Conrad has been here a couple of hours and patiently waiting.

Senator Boschwitz. But he is learning, Mr. Chairman. [Laughter.]

The Chairman. And now he is prepared to teach us. [Laughter.] And Senator Boschwitz, of course, has used up Senator Bond's time. [Laughter.]

Senator Conrad. Rudy used to be a pretty close friend of mine.

I first want to thank you, Mr. Chairman, for beginning the serious work of the 1990 farm bill now. Congressman Byron Dorgan and I have just completed a series of farm forums across my State. We found that farmers in my State were very appreciative that the chairman was getting such an early start on this important legislation. They also appreciate your willingness to come out across the country once again to listen and to learn.

The Chairman. Thank you.

Senator Conrad. I also want to extend a warm welcome to Secretary Yeutter for being here today. I had a chance to read the statement, and I was pleased to see him mention that farm policy is going to be made here and not in Geneva.

If there was a consistent theme of these farm forums, it is a real concern that, in fact, we are going to have to negotiate away things that are important to us. And let me just follow up on some specifics.

There was a faxed transmission from USDA, the Office of Public Liaison, that contained the decoupling proposal submitted by the

United States at GATT. This had a cover letter, dated April 17th, and so I assume it contains our latest position.

It stated the United States proposal would completely phase out, over 10 years, all agricultural subsidies which directly or indirectly affect trade. It indicated that, on eligibility criteria, eligibility could be determined by what they termed a means test. And in this proposal it stated, "based on this experience the United States reached the conclusion that a new direction in farm policy was required. The new direction is known as decoupling and underlies the U.S. GATT proposal on agriculture reform."

Now, a number of people have come to me, representatives of farm groups, individual farmers, people who were at the GATT round to ask, when did we establish that was U.S. policy? We have not had a debate. We have not had a vote that established that as policy. And is there not a unilateral attempt here to rewrite farm policy? I think those are legitimate questions and ones that need an answer.

So I would say to you the question that is put to me is, are we not, in fact, setting U.S. policy in the international arena in rendering the policy debate discussion here potentially irrelevant?

Secretary Yeutter. Well, I suppose the question really becomes, Senator Conrad, whether we want to participate in the negotiations on agriculture. We could make that a moot issue by simply dropping out of the negotiations, and then we can write our farm policies however we wish but without any involvement or concern by anybody else in the world.

I do not think we want to do that because we want other people to change their farm policies. That was the purpose of the whole negotiations in the first place.

Senator Conrad—I am sorry to give you a long answer to this but maybe it is important—when I came to USTR, everybody in the American agricultural community came to me and said we are delighted that we have an agriculturist finally in a position of authority on trade in this country. We want you to work to get a negotiation going, and to get agriculture at the top of the agenda. Well, we did that.

The Uruguay round has begun. Agriculture is in the forefront. It is one of the highest priorities for the United States, and I believe appropriately so.

Now, people are beginning to say, oh, my goodness, what are those folks going to do over there in Geneva? Maybe we are going to get traded away.

Well, I would say the first thing they should do, Senator Conrad, is have a little confidence in the negotiators. I am not playing that role anymore. I have switched roles. But I really believe that our USTR negotiating team will handle that job well. I do believe we have a chance of getting other people to change their policies in a major way.

But it would be naive to believe that we can get everybody else in the world to reform and not have to do anything at all here. Now, we are going to have to do some things in the United States that will accommodate what ultimately comes out.

Now, as to the specifics, people have to recognize that this is a negotiation, and that there are tactical reasons why we do certain things at certain times. They are going to need to have the patience to wait until the end of the exercise to evaluate these kinds of things.

One of the reasons that we placed a lot of emphasis on decoupling is because we want the European Community to focus on that concept. To do that takes a lot of push and a lot of pressure. So, do not put too much emphasis on given positions at given points in time. You have to wait until the end of the exercise to make an evaluation.

Now, we are going to try not to do something that would be totally unacceptable here in Washington obviously, because whatever is agreed to in Geneva is going to have to come back here for approval of the Congress. We are going to involve the committees as we go along, clearly much more as we get to the middle of 1990 and into the last 6 months of the negotiations.

We are talking about preliminary stages right now. We also have a lot of advisory committees. It is not fair to suggest that nobody is having any input. We have a multitude of advisory committees. USTR has something like 50 or 60 advisory committees, private sector advisory committees.

Senator CONRAD. Well, I do not think anybody suggests for a minute that we not be a part of the negotiation. I am persuaded, and I think virtually everyone around this table is persuaded. Perhaps everyone around this table is persuaded that it is very important that we have a negotiation, that we have much to gain from a negotiation.

But there is a tension that exists here between being part of the negotiation and having our position in that negotiation determined by a relatively few number of people and not be in a position that would have the support of this committee or potentially of the Congress.

I think that is the tension that exists and the reason people are concerned. And I certainly have seen a lot of that in these farm forums we conducted.

Let me, if I might, just conclude with this one point. One of the reasons there is that concern is a sense that if the negotiators have their way, our producers would be hurt. As you know, I asked for the USDA studies on the effects of the proposal. I very much appreciate your forwarding them to me.

I noticed that in the studies that were done by ERS, USDA's research arm, that for the Northern Plains, there is a conclusion that if we achieve our earlier position, that is the elimination of all subsidies, or as you would describe them "trade distorting" subsidies, in comparison to the current situation that our part of the country would be subjected to a 30 percent loss of income overall. There would be a significant increase on the livestock side, significant reduction on the crop side, and the overall effect, according to this USDA study is a 30 percent reduction.

Now, this is the kind of thing that makes people, and I know you understand, terribly nervous. And I think understandably so.

The conclusion of this study is that the increase in price that comes about as a result of trade liberalization does not replace what crop producers get in subsidy.

What would you say to those who are deeply concerned about this matter? As you know, my State is in very difficult financial straits. What would you say to them when we have in hand a USDA study that says if the initial position were adopted, we would be a big loser?

Secretary **Yeutter**. I would say to them, Senator Conrad, that they have heard only a part of the story because what that kind of study indicates is what would happen as a result of the negotiation process. It however, makes no assumptions as to what our Government would do to accommodate what transpires in the negotiation process and the adjustments that are then necessitated as a result of the outcome. In other words, the intent of the negotiating process is to make the whole world of agricultural trade a lot more sensible rational and efficient and so on.

I truly believe that we will be able to move a long way toward that objective. But, as the study suggests, and as you suggest in your comments, that is going to require some adjustments by people. Not everybody is going to be a winner or a loser. Some parts of this country are going to gain; some parts of this country will lose; some initiatives will gain; some will lose.

The same thing will happen in Canada and the European Community and everywhere. So then the question becomes what will the respective governments do to ease that adjustment and to make some or all of those people whole? The fact is, that is a judgment and that is a decision that we will make back here in Washington. In other words, there is nothing that precludes the Senate Agriculture Committee from making every one of those farmers whole financially if we wish to do so, more than whole if we wish. We just have to do it in a way that is not trade distorting. So that is the answer.

This raises the question as to whether this type of financial assistance is going to be more or less costly than the programs we have now, but that is another issue.

But there is nothing that says that those incomes have to plummet.

Senator **Conrad**. A final observation.

I think it is very important that people hear that side of the story.

The **Chairman**. And obviously we will hear a lot more as this year goes on. Senator Bond.

Senator **Bond**. Thank you, Mr. Chairman.

Senator **Baucus**. If I might, I am chairing a subcommittee on the Alaska oil spill and I have to get back. I wonder if I can submit some questions for the record?

The **Chairman**. Absolutely. A number of Senators have those same kinds of conflicts with the Budget Committee and everything else. And the record will be available for anybody who wishes to put in a statement or questions.

[See the contents for the questions of Senator Baucus.]

The **Chairman**. Senator Bond.

Senator **Bond**. Thank you, Mr. Chairman.

I think it is important for us to note it is almost like boilerplate, when Secretary Yeutter comes before us, to compliment him and thank him for his cooperation, his willingness to go out of the way and listen and respond to our concerns.

The CHAIRMAN. We will put that in the record too.

Senator BOND. And when he was Trade Representative, he was more than forthcoming in working with us. We appreciate that. And I appreciate very much your coming to speak to the corn caucus last week.

I am most grateful for your comments because we have heard of concerns with respect to the Farmers Home Administration and the competition with farmers who do not qualify.

Starting at the top, you will recall last year this committee put in provisions for permitted planting of sunflowers or soybeans, 10 to 25 percent of a producer's base. Approximately 35 million acres has now been enrolled.

What, at this point, are your thoughts, if any, on the utilization of the discretionary authority for implementing this provision next year?

Secretary YEUTTER. I have not focused enough on that, Senator Bond, to give you a good answer this morning.

Fundamentally, however, I am in accord with giving those folks a chance to build their industries. Some of those crops, it seems to me, have excellent potential in this country. It behooves us to try to give them a shot in the arm if we can possibly do so.

There are some tradeoffs there, as you well know. Some of these tradeoffs need to be evaluated in the context of the 1990 farm bill too.

But, fundamentally, I would lean in the direction of being helpful to those folks if we can do it without distorting things elsewhere.

Senator BOND. Following up on your flexibility comments, I particularly commend you for the flexibility comments you made in your prepared testimony that "additional flexibility should result in increased economic efficiency and long-term benefits to our society."

As I have traveled around Missouri asking for comments from farmers about the 1990 farm bill, we have had a number of concerns about how conservation compliance might impact upon normal planting practices from that and from other things. There has been a growing concern, sort of a groundswell in my State for the use of a much broader farm base, such as the 1977–78 normal crop acreage concept. Under this approach, the set-aside would apply to the entire farm base allowing the farmer to plant for the market. Perhaps we would provide the same kind of target price or loan support protection, but allowing them to make that decision themselves as to where they see the shortages.

Have you in the Department of Agriculture examined that and, more important, will you examine this in looking at the 1990 farm bill proposals?

Secretary YEUTTER. We will examine it, Senator Bond. In fact, that will be on Mr. Crowder's desk quickly as a challenge because it merits serious consideration.

In my opinion, one of the principal criticisms, legitimate criticisms of existing legislation is that it is simply too rigid. We have institutionalized very substantial rigidities, and we forced ourselves into an agricultural policy structure that simply is not very adaptive. We cannot change. We do not permit signals, market signals to move through the system as quickly as we should. We need to move in that direction.

Now, how far we shift that pendulum, Senator Bond, is really the question that you are asking. I am not sure today what that answer should be.

Senator BOND. One point to which I will direct your attention is the planting of industrial use crops, crambe, guayule, kenaf, high erucic rapeseed, meadowfoam, and milkweed. I have introduced a measure [S. 606] with the support of a number of members of this committee to allow that flexibility and base protection. I would hope that that would be considered in the flexibility of proposals, because this is one very important way in which we could increase income and still avoid overproduction,

To move to comments you made in your prepared testimony about the Conservation Reserve Program, I will not go over my time, and just say that we have raised real questions in our State about whether we could ever get to the 45 million acre goal, and suggest, as you have implied in your comments, that perhaps some of those dollars might better be used in conservation compliance and assistance to keep farmers from dropping out.

Missouri is a leading State in providing cost share for conservation. I would urge you to consider that possible amendment to the CRP program.

Secretary YEUTTER. We would be pleased to do that, Senator Bond, because obviously the CRP acres are getting more and more expensive.

Senator BOND. I will submit all the rest of my brilliant remarks in writing.

Thank you, sir.

The CHAIRMAN. I did not want to cut you off because you have been waiting here a long time.

Senator BOND. There are others also, and I will submit questions in writing.

Thank you, Mr. Chairman.

[See the contents for the prepared statement and questions of Senator Bond.]

The CHAIRMAN. Senator Harkin.

Senator HARKIN. Thank you, Mr. Chairman.

Secretary Yeutter, I have been waiting a couple of hours too, and I do not mind that because I have a lot of people in Iowa who have been waiting some months now to try to get water.

Now, I know we are here to discuss the 1990 farm bill. But when you do not have drinking water and when you cannot feed your livestock, and you are hauling water 90 miles or more sometimes, and you had to sell your foundation herd because you just cannot make the cash-flow any longer, you do not worry too much about the 1990 farm bill.

Secretary YEUTTER. Yes.

Senator HARKIN. I cannot begin to tell you how bad it is.

Governor Branstad, just the other day, declared several of our counties disaster areas. We have whole communities that are disaster areas. I held water hearings out there a month ago. And this is just an example of hundreds of cases of elderly people living in small communities, having no water in their wells, relying upon their neighbors to drive them to other towns to fill up milk cartons and jugs with water so they can have water to drink. They cannot flush their toilets because there is not enough water. They do not have enough water to even flush their toilets.

People are going out and digging outhouses once again. I just cannot begin to paint for you how bad it is in Iowa right now.

Last year, we had a total of $5 million in requests in Iowa for Farmers Home water programs and sewer programs. All of them were funded. That was last year, $5 million. This year, we already have over $60 million just in applications. And yet—and I will admit that the National Farmers Home did bring back to Iowa from the pooling and the redistribution $4.3 million. We have received a total this year of $10.8 million, of which $1.5 million is in grants and the rest is in loans.

But again we have $60 million in applications that are already pending. Nothing seems to be happening. And people are desperate out there. And yet we have waterlines—the fact is not that we do not have the water, we have the water, we just cannot get it from point A to point B. We have communities that are literally 5 to 7 miles from a rural waterline, but there is no money to tap into that rural waterline and get it to that community. And yet people are hauling water all that distance.

I have a small business—actually it is not so small, it is fairly good sized—a production business in a small community in Iowa. And yet they may have to pack up and move because they do not have water. And you are talking about one of the basic job structures for that whole community.

Well, I am introducing an emergency legislation bill today, and I know we have bills, bills, bills. But from what I see is that the program is not focused on those communities that are small and that are in desperate need.

My bill basically just says let us take this money, let us get the grants to communities of less than 2,500 where there has been a precipitous drop in quality or quantity in the last 2 years, and try to focus that money in there.

And again I plead with you to really get Farmers Home under you and to really push them to start getting some funds out there. It is critical. I just cannot tell you how critical it is.

Secretary YEUTTER. Water is a significant problem in quite a few locations, Senator Harkin, as you know, not only in Iowa, but to some degree in Missouri, as Senator Bond knows.

From my trip to Kansas, it is obvious they are generating similar problems out in western Kansas now because of the drought.

It is going to be difficult to meet all those needs with the financial constraints that we have. In some cases, Senator Harkin, local and State governments have more finances available than the Federal Government. So, the one question I hope you will pose back home is have you folks searched your souls about raising some money locally and at the State level rather than coming to the Federal Government?

Senator HARKIN. Iowa has put money into it. There is no doubt that Iowa has put money into it at our State level. I bet Missouri has too. But they just cannot meet that demand. They cannot meet the need. As you just said, it is Missouri, it is Iowa, it is Kansas, it is a national problem. And when people have been hurting in other parts of the country, Mr. Secretary, whether it is Appalachia or whether it is in Kentucky or Missouri or Alabama, we did not say you go solve it yourself. The country stepped in to help.

This is something that impacts not only the people that live there, but their production. It affects agriculture, livestock production. And I would hope that you would not just say solve it yourself. These are poor communities. They do not have much money. They are elderly. They do not have many people there that have a tax base. Some of these towns, you know that as well as I do, Mr. Secretary, the average age is probably 70 years of age. They do not have a tax base that they can go in there and lay a waterline in their community. They just do not have it.

So we have to look to the Federal Government, as so many areas of our country has, at times of need, to come in and try to give some assistance. And I am just telling you we cannot wait much longer. It is a crisis.

It is just like if a tornado went through. Do we tell the local community search your souls and find your own money to fix it up? No. We step in with money to help local communities like that.

Secretary YEUTTER. Well, the last time I looked, Senator Harkin, there were budget constraints at the Federal level too.

Senator HARKIN. Well, can I ask you, are there other sources of funds within Farmers Home Administration or USDA that could be used for this?

Secretary YEUTTER. Well, it is always a question of budget priorities. You know, we can find money for these kinds of programs if we adjust priorities. It can come out of price and income support programs, it can come out of rural housing, it can come out of a lot of places. But obviously the folks who get funds in rural housing will not be enthused about this, and the farmers who get it through target prices would not be enthused about having their target prices lowered. So it becomes a very difficult problem with priorities.

Senator HEFLIN. Would the Senator from Iowa yield for a moment?

Senator HARKIN. Yes.

Senator HEFLIN. In the drought assistance bill, we put a title in that deals with water problems. Included among them is the authority relative to water authorities to come together in confederations for loan guarantees, for grants. There is broad power.

But the Secretary of Agriculture has not—you have not been there long enough—has not yet implemented any regulations on this. Some of this can be done at relatively low expense, can be done by the issuance of bonds by a confederation and by other things there that can be done.

And I do ask the Secretary of Agriculture to look at this.

Now, also in that title, it does provide for the Secretary and the cooperation of every other entity in the Department of Justice, including the Corps of Engineers, others that makes available loans from the banks of cooperatives, and their report language would include even the Federal Financing Bank and others to assist in this water program.

And this to me—if we have another drought year, I have four counties, I mean I have certain sections of the State where there are counties that have suffered for 4 years consecutively in drought. I do not think that this is by itself a solution for your problems in Iowa, Senator Harkin, but it does provide, and it also is the authorizing bill to give the Secretary the authority and the power to do many, many different things relative to water.

And I want to talk to you about it, Senator Harkin, about this. But I do urge the Secretary to go forward with the promulgation of regulations that that act calls for that was in that drought assistance bill.

Secretary YEUTTER. I will be glad to look at that, Senator Harkin, and see if it has any possibilities of helping.

I would say that the chances of doing something in a loan guarantee mode would be a lot better than finding direct grant money because direct grant money has to come out of somebody's hide.

Senator HARKIN. Well, I will tell you what people out there have told me that they may not be able to pay the loans, but when you do not have any water to drink, they will pay anything. When you do not have water to feed your livestock, you do not have water to drink, you cannot flush your toilets, I mean what is water worth? It is worth a lot.

Secretary YEUTTER. Sure.

Senator HARKIN. And they are willing to pay for it, And I know you are a sensitive individual, and I do not want to let the moment pass and let it be on record that you were basically telling these people to handle the problem themselves.

And that comment you made about searching their souls and see if they can come up with their own finances to help it.

Secretary YEUTTER. The Federal Government cannot do everything for everybody, Senator Harkin. It would be nice if we could solve all the problems of the world and spend no money doing so. But life is not like that.

Senator HARKIN. Well, you are taking a great leap there, Mr. Secretary. I suppose the next time a hurricane hits one of our coastal cities, you will just say tell them to go away?

Secretary YEUTTER. No, I did not say that.

Senator HARKIN. The next time we have a drought, you will tell each State to handle it themselves, the Federal Government cannot handle it. The next time we have a tornado that comes through some place, maybe if it comes through out there, you will just tell them, well, forget it, the Government is not going to help you, you just handle it yourself.

Secretary YEUTTER. Well, you know I am more compassionate than that. But you also know that we have to have some balance and good sense in this. And you know, there is not an open spigot of Federal funds to solve every problem in the world.

Senator HARKIN. I am not asking you to solve every problem in the world.

This is a problem that is agriculturally oriented. It affects a large agricultural area of our country. And the Department of Agriculture, the Secretary of Agriculture have been charged with the responsibility of taking care of these matters by the Congress of the United States.

I just hope that you will find something more forthcoming from the Department of Agriculture than just the attitude that we cannot solve every problem. This is a problem, I think, that is very much under the purview and keeping with the general responsibilities of the Department of Agriculture and Farmers Home Administration. We have laid it out in legislation and it is there. It is not something new. It is not something that is different. It is not something that the Department of Agriculture has not addressed before.

Secretary **Yeutter**. We will be glad to address it, Senator Harkin. We will be glad to look at your legislation, and we will be happy to try to be as accommodative as we possibly can because I do not want to see people go without water either.

I just want everybody to be cognizant of the fact that we have very difficult budget decisions to be made. I was saying before you came in, Senator Harkin, that I was reading my mail last night, and about 80 percent of the letters I have received in the last 48 hours from Members of Congress were of this nature, asking for us to spend more money on something. Those were probably all legitimate causes, but we do not have the money to respond positively to every one of those requests.

Senator **Harkin**. Obviously, my time is up. But, you know, I guess my people out there will say here we are going to put billions, billions of dollars into bailing out the savings and loans, but we cannot come up with $50 lousy million to get people drinking water. Boy, what kind of priorities do we have around here.

Senator **Bond**. Mr. Chairman, just one point of clarification in response to the comment made by Senator Heflin.

As I remember that section, it required funds be appropriated to the Department of Agriculture to do the work contemplated. And I do not believe we have, as a Congress, yet appropriated the funds. So perhaps this is something that needs to be addressed in the appropriations process before the Secretary even has the resources to deal with it.

And I obviously share the concern, but we too are operating under budgetary constraints.

Thank you, Mr. Chairman.

The **Chairman**. Senator McConnell.

Senator **McConnell**. Mr. Chairman, I am going to make you a happy man and submit my questions for the record, and thank the Secretary for being here and apologizing for it, like a lot of others, having three or four things to do at the same time.

I want to commend you again publicly for the outstanding effort you made in your previous position to open foreign markets for American tobacco and cigarettes.

I talked to Carla Hills about continuing that effort. I believe that she will. And I might say that I think we have just touched the surface of the potential to market this fine American product abroad. And I hope, to the extent that you are involved in those discussions in your new position, we can continue to march in that direction.

I might say for those who feel somewhat guilty about the export of American cigarettes, we did not teach the rest of the world how to smoke. There are enormous numbers of smokers out around the world already. They simply have not had an opportunity in many markets to get American cigarettes. American cigarettes are so popular that they are in fact the currency in some Eastern European countries. And so we think we have a product here that can compete in the international market.

I want to thank you for what you have done in the past and encourage you to keep doing it in additional countries as the opportunity arises.

Secretary YEUTTER. Thanks.

Senator MCCONNELL. Thank you.

The CHAIRMAN. Senator Kerrey who has also been patiently waiting. In fact, I might note, Mr. Secretary, we have had almost every member on both sides of the aisle in here for a considerable period of time. I think that is pointing out to you just how interested we are in the beginning of this farm bill.

There have been a number of statements made regarding various Senators' concerns. I think that they are legitimate concerns and should be listened to, but I think it also reflects the time when you and Ambassador Hills came up to meet with us just informally, we filled up this whole table with members, again on both sides of the aisle.

Senator Kerrey.

Senator KERREY. Mr. Secretary, I left for awhile to be with your friend and mine, Mike Yanney, who sends along his best.

Mr. Chairman, I would like to submit for the record and to pass along to the Secretary some figures on the cost of the farm program over the past 20 years as measured against the entire Federal budget.

I do so, Mr. Secretary, sort of as a prelude to the question that I have to ask which references your statement that you have received letters requesting increased expenditures.

I think there are ways for us to increase the amount of income that comes to the farmer from the marketplace, while reducing the budget exposure, as all of us, I assume, have as our objective. We have made some suggestions regarding the operation of our farm programs, and there have been some philosophical disagreements at times. But I would urge you to take that into consideration. In fact, I would like to get to that. But I would also like to make one additional preliminary statement in response to your comment that we cannot be xenophobic or parochial as we judge the discussions in Geneva.

I would disagree with you slightly. I think we need to avoid being xenophobic. I agree absolutely with you there. However, because we, unlike you, have had the joy of going out and getting elected, we are, by nature, parochial. We try to overcome it, we try to look for ways, I think, to reduce the trade distorting subsidies that are in place, and try to lower the barriers to trade.

We are trying to accomplish those objectives. But there is a considerable amount of concern over what is going on in Geneva. That concern is being expressed to me by my people at home, and that concern was reinforced, and made worse by some statements made by the U.S. Coordinator for Multilateral Trade Negotiations when he appeared before Senator Boren's subcommittee and said, first of all, that the short-term agreement was meaningless, which confused *many of us who thought that it had some meaning.*

And second, he went on to say, in response to a question about why we gave preferential treatment to Brazil and Argentina in the short term, his response was, well, we had to, because of the dynamics of the negotiation. That statement added fuel to the fire of concern that we are so enthusiastic about getting an agreement that we may not negotiate well for the interest of American agriculture. Those concerned Nebraskans are the people that elect me. I receive no votes from Europe. And I must, with all due respect, for the process of the negotiations, make that clear.

My concern is first and foremost with the people of the State of Nebraska. My concern is such, as a representative of Nebraska, that it even takes precedence over the people who are around this table. I am more concerned about Nebraskans' interest as a consequence of getting elected. I try to overcome that and say I will also take into account what is in the best interest of the Nation, as a little elemental description of representative democracy—and I apologize if it is too elemental. But it is important, I think, to understand that it is the interest of American agriculture that we attempt to represent.

I would like to ask, just briefly, what is your attitude toward this sort of bogey called supply management and how willing in the 1990 farm bill you may be to at times overcome philosophy and do some things that might in fact work in practice?

You indicated that the EEP sales are dependent upon stock levels; that inventory levels very often will guide EEP program decisions. I assume that your concern is that we not get the stock levels too low because the price will get too high.

Secretary YEUTTER. No, because we may not have anything to eat.

Senator KERREY. But, in addition to that, there is some sensitivity price levels, is there not?

Secretary YEUTTER. Well, obviously, extreme shortages of fruit supplies are going to lead to higher prices which will lead to higher inflation. But I am much more concerned about having both the fundamental supplies we need for human consumption and also the supplies that are necessary to be a dependable supplier in export markets.

Senator KERREY. But you are expressing, and I am just trying to get an understanding of the philosophy that you hold, what you think the program should look like.

You have recognized a relationship between price and inventory.

Secretary YEUTTER. Yes.

Senator KERREY. You see that. My question is whether or not you think it would be reasonable by law to specify some ending stock targets for commodities, to indicate what those ending carryovers will be for our commodity programs?

Secretary YEUTTER. That has been done to some degree in the 1985 farm legislation. It is not provided by law, but certainly there were indications in the debate of the 1985 farm bill as to about what those levels should be.

And my belief is that the Secretary of Agriculture has since then attempted to try to sustain those levels.

Senator **Kerrey**. You, in fact, under the 1985 law, have the discretion to diverge from those targets as you implement the program, as I understand it?

Secretary **Yeutter**. That is correct.

Senator **Kerrey**. But do you think it is reasonable for us to discuss the possibility that the 1990 law should contain some target objectives?

Secretary **Yeutter**. I would prefer, and this is not personal, this is institutional, for the Secretary of Agriculture to retain considerable flexibility in that area.

For example, if those targets were rigid today, we might have been required to stop EEP given current conditions. In other words, having some additional flexibility has made it possible for us to continue with the EEP program that probably would not have been possible had we had targets established by law.

So it seems to me that having some discretion in the Secretary is useful. But I also believe it is useful for the Congress to express its views on this subject as it did in the 1985 farm bill. I prefer not to have rigid numbers.

Senator **Kerrey**. Suppose we had a target, but gave you the authority to diverge from the target under certain circumstances. Is that a reasonable thing at least to discuss as a possibility?

Secretary **Yeutter**. That would be very similar to what we have now. So that would not be troublesome.

But it depends on how it is formulated. Of course, I would like to see the specifics.

Senator **Kerrey**. Again, to followup on the EEP question, we had a discussion prior to the hearing, and you allayed my concern about the comment that was made yesterday, but I also heard from some people in the grain business who watched the message come across the ticker, and watched wheat prices drop 7 and 8 cents until you made some statements to calm the markets.

I assume you understand that statement could have had a disastrous impact, had it not been clarified.

Are you getting close to a decision on the Farmer-Owned Reserve Program, as to whether or not those loans are going to be extended? I ask you because an extension appears to be a way to save money.

Secretary **Yeutter**. It is difficult to appraise that at this point in time because of the volatility of the weather situation, among other things.

Senator **Kerrey**. Moving on to another issue, the issue of foreign versus domestic market development, should we change the trade title of the farm bill to look at market development more broadly, to look at the domestic market as well?

Secretary **Yeutter**. I really have not given that any thought, Senator Kerrey. I would be glad to evaluate any suggestions you might have in that regard.

Senator **Kerrey**. It is based upon my belief that we have a very large and vibrant market in the United States. The biggest evidence of that is that foreigners sold $21 billion worth of agricultural commodities to us last year. Perhaps we should be allocating—and I say perhaps, not because I have some precise number in mind, but perhaps we should be allocating some larger percentage of total market development funds to expanding the domestic market.

One additional comment, to follow up on a previous discussion we had, is that I believe very strongly, since you mentioned sustainable agriculture, that it needs increased visibility within USDA. I think it would be much easier for you to allay the fears of some people that we are going to restrict, for environmental reasons, the way that they can produce if farmers were encouraged to adopt sustainable agriculture practices.

Finally, you made a comment with which I disagree, and I would like to tell you why I disagree and then let you respond.

You indicated that you felt that the long-term solution to environmental problems relating to agriculture could be found in research rather than regulation. I disagree, not because I believe that we should ignore research, and not because I would assert that a regulatory response is the only response, but because I believe the question really ought to be how are we going to regulate.

I simply think there must be a regulatory response. In fact, I would refer you back to your own commendation of the chairman and Senator Lugar for working so hard to get the CRP program and the sod-buster/swamp-buster provisions, which are essentially a regulatory response to an environmental problem.

Secretary **Yeutter**. I should have expanded that comment, Senator Kerrey, because I certainly did not wish to leave the impression that I want to preclude regulation. Obviously that would be impossible. We are going to have to continue to have regulations in this area. It may well be that we will need more regulations in some of these arenas than we do today.

So, regulation will always be a relevant aspect of protecting our environment. The fundamental point I wanted to make was that it seemed to me that there is too much emphasis on regulation today and too much emphasis on the short-term environmental aspects, and too little thought of what can we do that will pay dividends in this area 25 or 50 years in the future. That calls for a research program.

We are going to have to find out through research efforts involving low inputs sustainable agriculture, for example. That is one area. But a lot of others, how we can handle our farming operations 30 years, 40 years from now in a way that will protect the environment better than it does today. That is something farmers would do voluntarily if they knew how.

Farmers are not going to damage the environment if they can avoid it. But they are going to need some help out of the research arena.

One reason I mentioned the linkage of research to the environment is that some of the folks in the academic community have been giving some attention to this question, including Dr. Charles Hess, who has been nominated or will be nominated to be our Assistant Secretary of Research and Education. And I suspect that Dr. Hess, and others, will be coming forward with some specific recommendations in this area sometime in the next few months, maybe even early enough to have some inclusion into this legislation.

Senator KERREY. My fear, Mr. Secretary, is based upon my belief that increasing amounts of research will force us to make changes before we have considered how to make the changes. The Central Platte Natural Resource District, which I know you are very familiar with, since you and Governor Tiemann created the NRD's in the late 1960's, is a terrific model. They are implementing very strict nitrate and herbicide and pesticide standards that are much more strict than the EPA has. And the implementation is done at the local level.

So it is possible, it seems to me, to put Federal standards in place that are tough, but permit the implementation of those standards to be done at the local level. These local people, I think, are way out in front of what most of us are doing.

Secretary YEUTTER. I agree with that. I am pleased with your mentioning of these local efforts Senator Kerrey, because a lot of these efforts flowed from my Ph.D. dissertation back in the sixties.

Senator KERREY. Well, we did not understand the dissertation but we sure understand it in practice. It is working. [Laughter.]

Secretary YEUTTER. Thank you. It is the results that count.

[The farm program costs and the Federal budget material submitted by Senator Kerrey follows:]

FARM PROGRAM COSTS AND THE FEDERAL BUDGET, APRIL 14, 1989

[In billions of dollars]

Year	CCC outlays	Federal budget	CCC/budget (percent)
1970	4.213	168.042	2.51
1971	4.058	177.346	2.29
1972	3.457	193.824	1.78
1973	4.094	200.118	2.05
1974	2.759	217.270	1.27
1975	.710	271.892	.26
1976	.525	302.170	.17
TQ	.167	76.552	.29
1977	.824	328.487	.25
1978	3.056	369.072	.83
1979	3.300	403.486	.82
1980	2.752	476.591	.58
1981	4.036	543.013	.74
1982	11.652	594.302	1.97
1983	18.851	661.219	2.85
1984	7.315	685.968	1.07
1985	17.683	769.509	2.30
1986	25.841	806.760	3.20
1987	22.408	809.998	2.77
1988	12.461	861.352	1.45
1989 E	13.843	926.169	1.50
1990 E	11.579	931.730	1.24

The CHAIRMAN. Thank you, Senator Kerrey.

Senator Lugar.

Senator LUGAR. I have no more comments.

The CHAIRMAN. I wonder if I could, just ask a couple of very quick questions.

Mr. Secretary, in your confirmation hearings, you talked with us about the ground water question. Last year, we were faced with two issues, with FIFRA—pesticides—and ground water. We have pesticides out of the way. The ground water we still face. It is a major issue throughout rural America.

To use my own example, my home is supplied by ground water as is approximately 90 percent of rural America.

Are there some specific legislative proposals about to come up from the Department on ground water?

Secretary YEUTTER. I am not aware of anything that is yet ripe, Mr. Chairman. But, as you already know, a lot more emphasis is being given to that issue within the Department. We will have some additional funding coming up for it. And if we have anything that is ready for inclusion in the 1990 farm bill, we will obviously bring it to you.

The CHAIRMAN. Please do.

And my last question is on PL-480. When we look at the trade programs, we are also going to look at the whole question of PL-480. These programs have been part of our trade policy now for 35 years. We see American agricultural commodities in just about every part of the world as a result of it. But now we hear questions of whether it is suffering not from old age—I am not going to call 35 old—but inefficiency, cumbersome, exhausting, regulatory requirements, lack of true policy direction, in its implementation.

I think there is some disquiet in all branches on PL-480. Do you have some specific suggestions about that?

Secretary YEUTTER. It merits a critique, Senator Leahy, as do all of our other AID programs. There has been a considerable amount of discussion of that subject within the Government in recent weeks and on Capitol Hill as well.

As you know, my former Deputy at USTR, Alan Woods, is now the Administrator of AID. He is calling for this kind of a critique within his own agency. PL-480 relates so closely to their activities that it is just natural that it be included therein.

So I expect that we will have a cooperative endeavor throughout the Government to take a look at all of our AID programs, including PL-480.

The CHAIRMAN. Both Senator Lugar and I have raised the issue of use of foreign agents. The bidding process should be one of the things they may want to take a look at.

Our thanks to you all.

We will keep the record open for those who may want to add to it.

I think it has been a very good hearing. Mr. Secretary, I thank you very much for your patience.

[Whereupon, at 12:42 p.m., the committee adjourned, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

APPENDIX

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
May 4, 1989.

The Honorable CLAYTON YEUTTER,
Secretary, U.S. Department of Agriculture, Washington, D.C.

DEAR MR. SECRETARY: Thank you for appearing before the Committee on Agriculture, Nutrition, and Forestry at our hearing on April 19, 1989, and giving your views and opinions as to the direction of the new farm bill.

Enclosed please find the questions submitted for the record in association with that hearing. We would appreciate responses to these questions as soon as possible. Please return your responses to Betsy Paul, Hearing Clerk, Room 328A Russell Senate Office Building.

Thank you again for your assistance.

Sincerely,

PATRICK LEAHY,
Chairman.

Enclosure.

QUESTIONS FOR SECRETARY YEUTTER SUBMITTED BY SENATOR LEAHY—HEARING ON PREPARATION FOR 1990 FARM BILL

Farm Income and Government Costs

FARM INCOME

As we develop the 1990 farm bill, two important parameters need to be addressed very early in the discussion. Simply put, these questions are:

What is an acceptable level of farm income?

How much money are we willing to spend?

In developing an answer, a review of history is in order. Net farm income peaked in 1973 in real dollars at $69.4 billion. Following that, farm income remained relatively high, averaging over $35 billion per year for the rest of the 70's. During that same time, the price of land increased sharply, partly due to inflation, partly due to interest rates, but in large part due to the level of farm income.

From 1980 through 1985, net farm income in 1982 dollars, averaged less than $24 billion. Land prices during that period fell more than 25 percent. Again, interest rates and a significant change in inflation contributed to the land price decline. But low farm income was once again a major factor.

What do you consider to be an acceptable level of net farm income, realizing that between 1980 and 1986, we lost almost a third of a TRILLION dollars in farm asset values?

GOVERNMENT OUTLAYS

I know of no country that leaves their basic food production, agriculture, completely exposed to the marketplace. If governments are to be involved in agriculture, food security would argue that a government should err on the side of having too much food. If a government is going encourage overproduction, then prices will probably be lower than would otherwise be the case. In exchange for that action, a government should be ready to pay for its food insurance program.

Given your answer to the question on farm income, what do you consider to be an acceptable level of government spending on agriculture?

Nutrition and Food Assistance

Two major nutrition programs are up for reauthorization in the farm bill—the Food Stamp Program and the Temporary Emergency Food Assistance Program (TEFAP). Over 18 million Americans rely on food stamps each month and up to 15 million receive TEFAP commodities.

FOOD STAMPS

One provision of the Food Stamp Act often forces families to choose between spending resources on heat or on food. This is a serious problem in my State and several others in northern latitudes. The maximum allowance designed to cover all shelter expenses, for rent, heating, electricity and cooking fuel, is only $170 per month. This puts food stamp recipients in the difficult position of choosing between paying rent and buying food.

Would you consider supporting a provision that would uncap the limit? Would you consider working with the committee in devising an alternative formula for shelter expenses?

DEFINITION OF HOUSEHOLDS

One provision of the Food Stamp Act defines who is combined with whom in applying for food stamps. Closely related persons temporarily sharing a residence are automatically forced to apply together, even if they do not buy food or eat together. This provision has been criticized as increasing the number of homeless families because if two families use the same residence, they are often considered one family for food stamp purposes. This can be unfair and can result in both families being thrown off food stamps unless one of the families leaves the residence. Senator Lugar and I have written the General Accounting Office and asked that they look into the matter of improving the definition of a food stamp household.

What definitions of households would you propose that would not increase homelessness?

TEFAP AS A SUBSTITUTE FOR FOOD STAMPS IN RURAL AREAS

TEFAP serves up to 15 million persons in any given month. Almost half of the families receiving TEFAP contain children. But less than half of TEFAP families are on food stamps. On reason that has been brought to the attention of the committee is that access to the Food Stamp Program is more difficult in rural America. Transportation to Food Stamp Offices can be a serious problem, bus transportation is often unavailable.

What suggestions could you make to try to improve access to the Food Stamp Program in rural areas so that food stamps can become more available?

Dairy Policy Issues

Milk prices increased substantially last fall as supplies of milk tightened due to the drought and the longer term effects of the whole-herd buy-out program. Lack of government stocks to balance market demand also contributed to a significant price increase. Since last fall prices have fallen.

On a monthly or quarterly basis, where do you see milk prices and government removals going over the course of the next 12 to 18 months? With respect to government removals, please provide the Department's expectations on product breakout as well as overall removals on a quarterly basis.

With S. 553, Congress adjusted the relative purchase prices for butter and non-fat dry milk. Overall, consumer demand for higher fat products is falling.

What longer term measures should the committee consider to deal with the problem of butterfat and the general component makeup of milk?

What are your views on a two-tiered or other supply management proposal for the dairy industry?

What are your views on a proposal that would establish target prices and loan rates for dairy products, in lieu of the current product purchase program we now operate?

Several dairy representatives are concerned that the GATT negotiations will harm the industry by eliminating section 22 protections. Others, including those within the administration, have suggested that the United States could become a major force in world export markets and that loss of section 22 protection would not seriously affect the industry.

Please provide a quantitative analysis describing the performance of the U.S. dairy industry in a free, world market environment.

Conservation

Reports received by the committee from across the country suggest that the implementation of the conservation provisions of the Food Security Act of 1985 is, in many instances, proceeding well. This progress includes the writing of the plans required under the Conservation Compliance provisions, which is commendable since the development and preparation of alternative compliance plans required a great deal of work.

Do you foresee any changes from current Conservation Compliance policy during the period 1990–1995, when the compliance plans are to be implemented? If so, what are these changes?

With respect to the 1990 farm bill, are there any specific issues in conservation policy that you want to see addressed or any new directions pursued?

THE CONSERVATION RESERVE PROGRAM

The CRP also is proceeding on schedule, with roughly 30 million acres to be enrolled after the completion of the eighth signup. While significant erosion reductions will result on these acres, very few of the 30 million are to be devoted to filter strips, a conservation practice that promises considerable surface water quality benefits.

Are there actions that the Department can take, under current authority, to cause or encourage a significant increase in filter strip acreage enrollment in the CRP? If so, what are these actions? If not, are there changes in authority that should be included in the 1990 farm bill to make possible greater filter strip enrollment?

The Department recently announced that cropped wetlands and lands subject to scour erosion are now eligible for the CRP. Please provide quantitative analysis of the number of acres, by State, that have been made eligible by this provision. Also provide quantitative analysis of the number of acres of cropped wetlands and land subject to scour erosion, by State or region, that are expected to be enrolled under this provision for a 40 million acre CRP.

Please provide detail on the assumptions used in the President's budget to estimate the out year expenditures for a 40–45 million acre CRP. Include detail on the assumed cost-share payments for cover establishment and the assumed rental rates.

The drought of 1988 and the anticipated declines in Winter wheat production due to this year's extremely dry weather in the central Great Plains have raised concerns over adequate crop supplies and cropland acreage. Please provide quantitative anlysis of likely cropland acreage, crop production and stocks, prices and use for 1990 through 1995 given a 40–45 million acre CRP. Please provide in your answer the commodity program policy assumptions, by year, used to conduct this analysis.

THE CRP AND WATER QUALITY

On November 21, 1988, I and three of my colleagues from the committee sent Secretary Lyng a letter requesting that the Department take immediate action to "develop a program that targets water quality improvements through the CRP". In his response on January 26, 1989, Acting Secretary Meyers stated that the Department does not see the CRP as "a primary instrument for treating water quality problems . . .". He also states that authorities currently in effect, other than the CRP, provide opportunities to address water quality problems with cost-effective measures.

The letter concludes that the Department feels it is prudent to conduct "further analysis" of the opportunities to improve water quality made available by non-CRP authorities. Please indicate the results of this further analysis, including the authorities being investigated and the magnitude and type of water quality benefits that might be anticipated from the implementation of these authorities. If the analysis has not yet been conducted, please indicate the Department's plans and anticipated completion date of the analysis.

FARMERS HOME ADMINISTRATION AND CONSERVATION EASEMENTS

The Farm Credit Act of 1987 gave the Secretary the authority, among others, to write-down a producer's FmHA debt in exchange for permanent easements on a portion of the producer's land suitable to conservation uses. Conservation easements in exchange for debt reductions can provide environmental and conservation benefits while contributing to the long- and short-term solvency of FmHA borrowers.

Please indicate how many conservation easements have been created under this provision, the number of acres involved and the distribution by State.

Is there any programmatic reason why this authority, exchanging conservation easements for debt write-down, could not be applied to all past and future debt incurred by FmHA borrowers?

Please provide suggestions, if possible, for how such a policy might be implemented.

Research

Agricultural research has been level-funded for the past 20 years. Some argue that this is MERITED BECAUSE the system HAS FAILED to respond to changing priorities and technological breakthroughs. IT IS ARGUED that "the same old research is being done" AT THE EXPENSE OF pressing concerns in areas such as sustainable agriculture, biotechnology and agricultural education.

What structural changes do you propose for science and education that may improve this situation? Specifically, do you support the National Academy of Sciences proposed $500 million new dollars for competitive research grants?

How would you restructure our facilities program to ensure maintenance of older facilities and an adequate planning procedure for the construction of new facilities?

Do you see any possibility for a closer administrative connection between CSRS and the Extension Service?

DO YOU RECOMMEND FULL FUNDING OF THE AGRICULTURAL PRODUCTIVITY ACT KNOWN TODAY AS THE CSRS LOW INPUT/SUSTAINABLE AGRICULTURE PROGRAM?

QUESTIONS FOR SECRETARY YEUTTER SUBMITTED BY SENATOR BAUCUS

1. As you know, the Export Enhancement Program has been a successful tool in making the United States more competitive in world markets. Do you intend to continue to support the aggressive use of this program to further U.S. interests and counter the European approach?

2. I am concerned that the EEP has been used almost exclusively to export Winter wheat. Three grains produced in my part of the country—Spring wheat, Durum, and barley—have gotten less than their fair share. In fact, use of the EEP last year for Spring wheat and barley was down by between 50 and 75 percent. I have even heard disturbing reports that the USDA is encouraging foreign customers to buy Winter wheat and no Spring wheat. I would like you to promise that USDA policy regarding exports of Spring wheat, Durum, and barley will be reviewed, and that you will see to it that Spring wheat, Durum, and barley are getting a fair shake.

3. At last week's hearing before the International Trade Subcommittee of the Finance Committee your representatives stated that the Department intended to review the Export Enhancement Program. What will that review consist of and when will it be completed?

4. Wheat farmers have asked for an additional EEP sale to the Soviet Union during this marketing year to move some of the surplus stocks. Do you support such a sale to take place in the very near future?

5. Let's talk about the oat price support program. Farmers in my State grow a lot of oats, however, the oat program set price supports so low that oat growers were discouraged from growing oats and as a result the United States suffered a shortage of oats and was forced to import this commodity. What does the administration

intend to do to encourage farmers to produce oats and thus protect the United States from this type of occurrence in the future?

6. People in my State produce a lot of beef for export. What is the administration doing to reclaim the European beef market that was lost due to the growth-promoting hormone controversy?

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

1. As you know, planting flexibility has become a popular topic. Last year's drought bill included a provision which gave producers the option to plant 10-25 percent of their base to sunflowers or soybeans. There was great interest in this provision and approximately 3.5 million acres were enrolled. Because USDA indicated prices would fall below the $5.49 limit, farmers will be allowed to plant 80 percent of what they signed up for.

This provision was mandatory this year and discretionary next year. As we consider the various flexibility alternatives, what are your thoughts on once again utilizing this provision from the drought bill? When could we expect an announcement on whether or not this provision will be extended?

Has the Department analyzed programs which would give producers additional planting flexibility? Would you recommend that we consider these alternatives as part of the farm bill or as a tool for budget reconciliation purposes?

I have introduced legislation which would give producers flexibility to plant industrial crops on base acreage without a corresponding reduction in that base. The legislation applies to six crops which have been identified as having significant commercial potential—guayule, crambe, kenaf, high-erucic rapeseed, meadowfoam and milkweed. What are your thoughts on providing limited base protection to producers who wish to experiment with these new crops?

2. The current farm bill includes provisions to implement multiyear set-asides. To date, this discretionary authority has not been implemented. Land set-aside for more than 1 year could improve the feed value in drought years when haying and/or grazing is necessary. Also, this type of program could lead to significant wildlife benefits. What are your thoughts on giving producers the option to enroll a portion of their annual unpaid set-aside acreage in a program which would allow them to keep it out for a period of say 3 years?

3. It looks like it will be difficult to get another 8 million acres in the CRP by the end of this year without increasing acceptable rental rates or further expanding the eligibility criteria. What are your thoughts about this and is the Department committed to reaching the 40-45 million acre goal? Has consideration been given to utilizing these funds for providing some kind of cost-share assistance to producers who must implement significant conservation practices (i.e. terraces) in order to remain in compliance?

4. In your testimony you question whether "annual outlays for price and income supports at levels significantly above the long-term average are defensible to the American taxpayer." I too, have wondered about this. The President's proposed FY90 budget is about $1.16 trillion. In FY90, farm program outlays are projected around $12.5 billion—a reduction of over 50 percent since FY86. This is slightly more than 1 percent of the total budget. Knowing that one of the unwritten necessities of U.S. agricultural policy is cheap food, I am concerned that so much attention has been placed on the cost of Federal farm programs.

What do you believe is an acceptable long-term level of farm program spending? Also, I would be interested in your views regarding an acceptable level of net farm income. Shouldn't we begin this exercise with a net farm income floor in place and develop programs which also meet our budget constraints?

QUESTIONS FOR SECRETARY YEUTTER SUBMITTED BY SENATOR McCONNELL

1. What few general themes does the new farm bill need to include that will cause our highly subsidized foreign competitors to reevaluate their positions on agriculture?

2. Many of the Kentucky farmers I talk to are often discouraged by the complexity and amount of time required to fill out the necessary forms required to be in

compliance. What can be done to simplify this process both for farmers and ASCS offices?

3. What plans are being made to protect the highly erodible land that has been enrolled in the Conservation Reserve Program as it ends the 10-year period of retirement?

4. Will there need to be additional incentives provided in order to achieve the 40 million acre goal of the CRP?

5. The word flexibility is fast becoming the watch word for the 1990 bill. Is the USDA currently doing any studies on how more flexibility can be added to farm programs? What suggestions do you currently have?

QUESTIONS FOR SECRETARY YEUTTER SUBMITTED BY SENATOR DAVID PRYOR

Questions:

As you know, my State has a great deal of cotton and rice, both of which have depended and benefited from the marketing loan program. That in mind, and with a short term GATT agreement reached, will it in any way preempt the operation of the marketing loan as it is designed to work?

Does the current work plan of GATT require that the United States have a farm bill in place by December? That is, do we need to expect to be forced into negotiating our next farm bill through GATT?

Are there any studies available that show the potential impact on U.S. row crop farm income if the Dunkel plan is enacted, or accepted?

Crop Insurance Question

Mr. Secretary, as you know this year I became the chairman of the subcommittee which has jurisdiction over the Federal Crop Insurance Program.

Arkansas has traditionally had low participation in the program and so I was pleased when the Commission on the Improvement of the Crop Insurance Program was formed. I am hopeful that the Commission will make some meaningful recommendations for legislative changes that our subcommittee and this full committee can consider for inclusion in the 1990-farm bill.

But Mr. Secretary, what I would like to mention to you today is that I believe you can help us along in this process. The Commission's April report contains recommendations for immediate administrative improvements that can be made under existing law. To be effective for the 1990 crop-year, these changes will have to be put in place by July 1.

I am particularly interested in the recommendations on alternative yield plans for adequate coverage and standardized unit definitions, both of which would make this program much more attractive to Arkansas farmers.

My question is how is the Department progressing on the implementation of these recommendations, and can we expect the majority, if not all, of them to be put into place for the next crop-year?

The Negotiating Group on Agriculture for the Uruguay GATT round developed, during the April 1989 Geneva meeting, a roadmap or set of guidelines for negotiating long-term trade reform, which was approved by the Trade Negotiating Committee. In part, the approved text reads as follows:

"Ministers agree that the long-term objective of the agricultural negotiations is to establish a fair and market-oriented agricultural trading system and that a reform process should be initiated, through the negotiations of commitments on support and protection . . . The long-term objective is to provide for substantial progressive reductions in agricultural support and protection sustained over an agreed period of time . . ."

Questions:

1. Since trade protection is specifically addressed in the approved text, please report to this committee how import barriers, such as Japan's rice import policy, were considered?

2. Explain how reductions in import barriers will be negotiated? Use Japan's rice import policy as an example.

3. How was Japan's rice import policy discussed during the Geneva meeting?

The approved text from the Geneva meeting also includes the following language on non-trade concerns:

"Participants recognize that factors other than trade policy are taken into account in the conduct of their agricultural policies. In the negotiations to achieve the long-term objective, account will be taken of proposals aimed at addressing participant's concerns such as food security."

Questions:

4. What does "food security" mean in the context of GATT negotiations?

5. Since Japan contends rice is a "basic food" and they want to remain self-sufficient in its production, how will the "food-security" negotiating guideline be applied to be consistent with the "substantial progressive reductions in agricultural support and protection" objective?

6. Does the United States accept the Japanese position that they must remain self-sufficient in rice production for food security reasons?

7. What is your understanding regarding Japan's position on negotiating a reduction in the rice import barrier during the Uruguay GATT round?

QUESTIONS SUBMITTED FOR SECRETARY OF AGRICULTURE, CLAYTON K. YEUTTER, BY SENATOR TOM DASCHLE

1. Would you be willing to accept lower farm income as a consequence of changes or extensions to the current farm programs beyond 1990? Do you make a distinction between what is acceptable in terms of the impact changed programs would have on aggregate U.S. farm income as compared to their impact on the farm income of, say, an average South Dakota corn and soybeans family farm operation?

2. In briefings on the outcome of the recent GATT talks, USDA officials have cited an Administration position paper submitted to the GATT that stated "the U.S. reached the conclusion that a new direction in farm policy was required. The new direction is known as decoupling, and underlies the U.S. GATT proposal on agricultural reform." USDA officials have indicated that this remains the Administration's position. Who in the U.S. reached this conclusion on decoupling, since the Congress certainly never articulated such a view? What does this imply for the Administration's views on what kinds of commodity programs the new farm bill should include?

3. FmHA on April 5, 1989, approved the conservation easement variance requested by South Dakota. Both the State FmHA office and the Fish and Wildlife Service supported this variance. Thank you for this favorable response that takes into account both the economic and environmental impacts that these easements have on communities. However, county offices have not received directions on implementation since the regulations will not be finalized until May 3. Given that farmers are trying to purchase land for this planting season, this delay will cause farmers to plant late, if they are even able to plant at all. This is of concern since the variance granted for South Dakota is exactly the same as the one that North Dakota has operated under since 1988. When will South Dakotans be able to request a review of the land, and when will the rules be sent to county offices?

4. I have previously asked you for a clarification of how FmHA inventory lands would be treated if the former owner still has preservation rights. During your confirmation hearing you indicated that easements would not be applied in this situation. Subsequently you confirmed that decision but indicated that it would require a change in regulations. When can we expect these rules to be finalized? What should I recommend to farmers who are trying to repurchase their own land? What should their plan of action be?

5. Much of the turbulence in implementing programs at FmHA stems, in my mind, from a lack of accountability. Currently, our State is being run by an Acting Director as are many others. Additionally, the agency as a whole is being run by an Acting Administrator. Without a permanent senior staff that is accountable, many decisions are being delayed. When will you appoint the Administrator and a new South Dakota State Director?

QUESTIONS SUBMITTED FOR THE HONORABLE CLAYTON YEUTTER BY SENATOR KENT CONRAD

GATT NEGOTIATIONS AND THE FARM BILL

(1) If the United States is successful in negotiating the "Decoupling" proposal, what decisions will be left for the Congress on the subsequent farm bill—as I see it we will have (a) an up or down vote on the GATT agreement under "fast-track" rules, (b) a decision to make on whether income and wealth will be part of the "decoupled" payment decision, and (c) a decision on the amount of compensation. Do you disagree with this assessment?

(2) Under pure "decoupling," will the U.S. be required to rescind all marketing orders?

(3) Under "decoupling," will farmers benefiting from federally subsidized water be required to pay the full cost of such water in order to avoid violating the GATT proposal? How would such a change affect agricultural production in California, Arizona, and New Mexico? Has the Department done any studies on the effects of "decoupling" on the agricultural economy of those States?

FOOD RESERVES

(1) In your testimony, you verified that USDA has slowed down, paused, or suspended EEP awards until the Department has a better understanding of domestic food supplies and prices for the coming year. What is an adequate food reserve for the United States?

(2) What is an adequate food reserve for the world?

(3) If you do not have a "best estimate" of the food reserve needs of the United States and the world, are you initiating any studies to determine a reasonable range of reserves to provide for U.S. and world food security?

(4) Have you initiated any studies in response to the Japanese demand that national food security needs be taken into account in the long-term agreement on GATT?

(5) In the discussions at GATT, has the United States made any proposals for world food reserves to provide food security and to share the burden of carrying those reserves? What is the effect of adequate food reserves on prices farmers receive? Has the USDA done any research on this issue?

CONSERVATION/SET-ASIDES

(1) In 1986 through 1988, the United States idled over 200 million acres in total. In 1987 and 1988, about one-fourth of the productive land of the U.S. was idled through CRP or mandatory set-asides. Is it the position of the United States at the GATT negotiations that other producing nations should initiate conservation reserve programs and other regulations to preserve the environment?

(2) As you know, North Dakota is home to millions of ducks in the spring and summer. The prairie pothole region extends far into Canada. Has the United States, either through negotiations at GATT or the U.S.-CANADIAN "FREE-TRADE" AGREEMENT, initiated discussions to preserve the pothole region of Canada in order to preserve the summer breeding grounds of wildfowl?

(3) Do you think U.S. farmers will remain competitive if the U.S. Government continues to place environmental and conservation requirements and restrictions on them while farmers in other countries do not have such restrictions—specifically, the Canadians have no sodbuster/swampbuster laws? Wouldn't it be wise both from an environmental and from a U.S. competitive position to negotiate for stronger environmental restrictions on agricultural production at the GATT negotiations?

FLEXIBILITY

(1) The Secretary has the authority to allow producers of program crops to grow nonprogram crops on permitted acres. There have been a number of requests to grow crops for industrial uses—uses that would not compete with food crops. Such flexibility would be a great boost for the development of industrial or "new uses" for agricultural commodities. Will you use your current authority to allow "new uses" crops to be grown on permitted acres?

THE EXPORT ENHANCEMENT PROGRAM

(1) As you know I have been concerned about the criteria for making awards under the Export Enhancement Program. I continue to be concerned about the high levels of stocks relative to usage of Hard Red Spring wheat, Durum wheat, and barley. I am also concerned about the record stock piles of edible oils in the United States. Have you had an opportunity to look into the criteria by which EEP awards are made? Is the U.S. considering any awards for Spring wheat, Durum, barley, or edible oils in the near future? What is the status of EEP at this time?

(2) U.S. stocks of edible oils are at 3.5 billion pounds—including 2.9 billion pounds of soybean oil. The European Community has recently completed an extremely aggressive export campaign, dumping a huge amount of surplus sunflower and rapeseed oil resulting from last year's record harvest at cut-rate prices to traditional U.S. customers overseas. I understand that the Soviet Union has requested an EEP award for vegetable oils. What is the status of that request? Is it a priority for the Department to meet the EC export subsidies in vegetable oils? Do you share my concern that the EEP program is essential to supporting oilseed prices and remains as the only effective means of countering the EC's continuing aggressive subsidization of vegetable oil exports?

STATUS OF GATT NEGOTIATIONS

(1) Is the U.S. still pursuing the complete elimination of trade distorting support in the GATT along with "decoupled" farm programs? In other words, is our aim in the next 20 months in the GATT to go a "substantial" way toward this same goal?

(2) Where do you realistically expect the EEC to move during these negotiations? Given our projected budget cuts for agriculture along with the large numbers of acres we have removed from production, what incentive does the EEC have to make concessions.

(3) Why were our important developing country competitors such as Argentina and Brazil excused from any actions in the short-term agreement?

(4) Now that we have agreed to only "substantially" reduce support in the GATT, are you considering additional policy options for a 1990 farm bill to deals with food security concerns in Europe, Asia, and the developing world? Would you consider an international food reserve plan and international coordination of supply management programs?

(5) The EEC exports not only its surpluses, but its weather related instability. As part of the GATT agreement, are you going to press the EEC to hold stocks or control supply so they carry their share of the burden of stabilizing world markets?

(6) What kind of changes in the 1990 farm bill would make economic sense and at the same time, put pressure on the EEC if they aren't forthcoming in the GATT negotiations?

(7) You say the 1990 farm bill will have to be "modified" after the agreement in Geneva is completed? Why can't we have a 1990 farm bill with enough flexibility in policy to cover all options—complete failure or full success in Geneva?

QUESTIONS SUBMITTED FOR SECRETARY YEUTTER BY SENATOR TOM HARKIN

1. Please describe in detail the results of your analysis of the estimated effect on U.S. net farm income of (a) the short term GATT agreement reached in Geneva and (b) any further GATT agreements in accordance with the long term elements and guidelines for reform contained in the text agreed to in Geneva.

2. What does available economic analysis show regarding the expected effect of the short- and long-term elements, respectively, of the Geneva GATT agreement upon the economic structure of U.S. agriculture, i.e., number of farms, size of farms, ownership of agricultural assets and capitalization of agricultural enterprises?

3. Which countries are considered developing countries for purposes of exemptions from the GATT agreement reached in Geneva?

Are any of these countries major competitors of the United States?

Are Brazil and Argentina developing countries?

What differences, if any, do you expect between the short- and long-term agreements as they pertain to developing countries?

4. What limitation does the agreement place on the United States' ability to reduce or increase the amount of land taken out of production through the CRP or other programs?

5. Have any other countries committed to reduce their production in the way that the United States does under its acreage reduction programs?

6. What effect will this agreement, or the long-term agreement, have on programs to aid agriculture such as research, extension, weather forecasting, etc.

7. Is the United States bound by the short-term agreement to allow imports at recent record levels, even though those levels were affected by the unusual circumstance of a severe drought?

8. Has USDA done any analysis on the relationship of Federal water subsidies and Federal commodity program benefits insofar as they may constitute a double benefit if a producer receives both?

Please provide for the record any analysis that USDA has indicating the amount of commodity program benefits paid to producers who also benefit from Federal water subsidies?

If this analysis is not available, will USDA undertake such an analysis to determine the extent to which such double benefits are paid?

9. Recent events indicate that consumer confidence in the safety of the food supply has been shaken. It would be devastating for farmers, consumers and the food industry to continue to have these food scares crop up periodically. I am convinced that consumers are going to have to be assured that their food is safe. Obviously, this will require more than the Federal Government simply saying it is so. A solid basis of trust must be rebuilt. USDA is, of course, not the only agency involved in this matter. What should be done by the Federal Government generally, and by USDA specifically, to rebuild confidence in the safety of the United States food supply?

10. In your testimony, you indicated that the Conservation Reserve Program is costly and that with present short supplies we should consider other ways to achieve conservation goals.

What conclusions has USDA reached regarding the cost of the CRP program versus the costs the government would have incurred under the commodity programs if that land had remained in production and been enrolled in the commodity programs?

What measures other than the CRP might you have in mind?

Would you perhaps envision a shorter term program similar to the CRP?

Do you have ideas about the relative merits of various policy options that have been suggested regarding CRP land once the 10-year contracts have expired, such as renewing the contracts or having the government purchase easements restricting cropping rights?

11. Cattle producers believe they should be allowed to place grain under CCC loan that is harvested and stored as silage without having to weigh the silage, that is, they would like to use field measurement.

What is USDA's position on this question?

Would allowing this practice require a statutory change?

12. What is the administration's view on the possibility of regularly allowing farmers access to ACR and CU acres in exchange for payment of a rental fee?

Would this policy require a statutory change?

13. Livestock producers have found the allowances under the emergency livestock assistance programs to be inadequate. Will USDA review these allowances to ensure that they reflect the needs of modern livestock production?

14. Recent figures show that about 1.3 billion bushels of corn from the 1984, 1985 and 1986 crops remain under Farmer Owned Reserve and extended CCC loans. Loans on 1.2 billion bushels of this amount will mature during July, August, September and October of 1989. In addition, 600 million bushels of 1988 crop corn under regular loan will mature during these months.

a. I am concerned about the price depressing effect of such amounts of corn coming on the market in a relatively short period of time. What analysis has USDA done of the price impact of this corn coming on the market in such a short space of time?

b. Has USDA analyzed the possibility of extending some or all of these loans? Has USDA considered the possibility of extending the 1985 and 1986 crop loans and allowing 1984 loans to mature or some other such combination?

c. If there is a change in policy on this matter the announcement should not be delayed. USDA has not indicated so far that any loans may be extended, but farmers have good reason to wonder whether they may be. Will USDA avoid last minute announcements on any changes in policy?

d. With the kind of carryover now projected, 1.8 billion bushels, a significant amount of corn is going to be stored into the next year. I would prefer that that corn remain in storage under farmer ownership. What analysis has USDA done of the costs to the government of storing corn that is forfeited when loans expire?

RESPONSES FROM THE DEPARTMENT OF AGRICULTURE

Responses to Senator Leahy's Questions

Farm Income and Government Costs

Farm Income

Question From Senator Leahy No. 1

Question. What do you consider to be an acceptable level of net farm income, realizing that between 1980 and 1986, we lost almost a third of a TRILLION dollars in farm asset values?

Answer. Net cash farm income has reached successive record highs in each of the past 5 years. I believe most people would agree that these levels have been acceptable. Also, in recent years cash returns to farm assets have averaged 7 to 8 percent, a relatively high rate. Regarding the drop in farm assets, we must remember that by the early 1980's land values rose to levels far beyond the lands' earning capacity—to unsustainable levels. Speculation, expected capital gains, negative real interest rates and "export euphoria" created this untenable situation. For the future, I believe that programs and policies that allow farmers to respond to market signals and to compete in world markets hold the best promise for farm income gains.

Question From Senator Leahy No. 2

Government Outlays

Question. Given your answer to the question on farm income, what do you consider to be an acceptable level of government spending on agriculture?

Answer. I, like most farmers, believe that farm income should come from the marketplace and not the Government. In recent years, government payments have accounted for over a fourth of cash farm income. Farm program outlays have averaged $15–$20 billion over the last 5 years compared with an average of $3–$4 billion for the 1970's. The outlays in recent years are not sustainable considering the urgent need to address the budget deficit. While we cannot instantly return to the spending levels of the past, movement in that direction ought to be our goal. Programs and policy geared to expanding markets, such as under the 1985 farm bill, will allow farmers to generate more income from the market, and consequently less government support will be necessary.

Nutrition and Food Assistance

Food Stamps

Question From Senator Leahy No. 3

Question. One provision of the Food Stamp Act often forces families to choose between spending resources on heat or on food. This is a serious problem in my State and several others in northern latitudes. The maximum allowance designed to cover all shelter expenses, for rent, heating, electricity and cooking fuel, is only $170 per month. This puts food stamp recipients in the difficult position of choosing between paying rent and buying food.

Would you consider supporting a provision that would uncap the limit? Would you consider working with the committee in devising an alternative formula for shelter expenses?

Answer. We believe that the Food Stamp Program should subsidize food costs, not housing costs. However, we do recognize that high shelter costs can place a significant burden on some households with limited resources. The shelter deduction is intended to account for those *excess* shelter costs and thereby compensate households that for geographic or other reasons have shelter expenses that are higher than most households. After all other deductions are taken from a household's income, shelter expenses greater than 50 percent of the household's net income, up to the cap of $170, are subtracted from the household's income.

It is important to recall that the limit on the shelter deduction is adjusted every year to reflect rising shelter costs. The next adjustment will occur on October 1, 1989. The McKinney Act of 1987 also included a special one-time adjustment that increased the limit by $12 on October 1, 1987.

One final point to note is that the excess shelter deduction is not capped for households that contain an elderly or disabled member.

We are always willing to work with the committee on examining alternative methods for improving the Food Stamp Program.

Definition of Households

QUESTION FROM SENATOR LEAHY NO. 4

Question. One provision of the Food Stamp Act defines who is combined with whom in applying for food stamps. Closely related persons temporarily sharing a residence are automatically forced to apply together, even if they do not buy food or eat together. This provision has been criticized as increasing the number of homeless families because if two families use the same residence, they are often considered one family for food stamp purposes. This can be unfair and can result in both families being thrown off food stamps unless one of the families leaves the residence. Senator Lugar and I have written the General Accounting Office and asked that they look into the matter of improving the definition of a food stamp household.

What definitions of households would you propose that would not increase homelessness?

Answer. The fundamental definition of a food stamp household includes those persons who purchase and prepare meals together. One exception to this definition requires that close relatives who live together be considered as a single household when applying for food stamps. A number of other exceptions to this definition have been made for certain categories of recipients such as the elderly and the disabled.

The concern that our household definition discourages recipients from sharing residences with temporarily homeless relatives was addressed through a new exception implemented by the Stewart B. McKinney Homeless Assistance Act. The Act allows parents of minor children and those children to be considered a separate household even if they live with the parents' parents or siblings, if the parents and minor children purchase and prepare meals separately.

We are aware of the General Accounting Office study and have been cooperating with them as they explore alternative definitions.

TEFAP as a Substitute for Food Stamps in Rural Areas

QUESTION FROM SENATOR LEAHY NO. 5

Question. TEFAP serves up to 15 million persons in any given month. Almost half the families receiving TEFAP contain children. But less than half of TEFAP families are on food stamps. One reason that has been brought to the attention of the committee is that access to the Food Stamp Program is more difficult in rural America. Transportation to food stamp offices can be a serious problem; bus transportation is often unavailable.

What suggestions could you make to try to improve access to the Food Stamp Program in rural areas so that food stamps can become more available?

Answer. The Food Stamp Program already has many features which assist rural residents in applying for and receiving benefits. States must conduct telephone interviews with applicants who cannot reach an office. Applications can be mailed to avoid the need for an office visit, and benefits are often issued directly by mail as well. Program participants can visit an office in a neighboring jurisdiction if that location is closer to where they live. Toll-free information hotlines, extended office hours, outstationed workers, satellite offices and mobile units are all utilized to identify, reach and serve isolated rural populations.

QUESTION FROM SENATOR LEAHY NO. 6

Dairy Policy Issues

Milk prices increased substantially last fall as supplies of milk tightened due to the drought and the longer term effects of the whole-herd buy-out program. Lack of government stocks to balance market demand also contributed to a significant price increase. Since last fall prices have fallen.

Question. On a monthly or quarterly basis, where do you see milk prices and government removals going over the course of the next 12 to 18 months? With respect to government removals, please provide the Department's expectations on product breakout as well as overall removals on a quarterly basis.

Answer. Department analysts are currently reviewing our official estimates. Changing developments require that the Department's estimates be revised periodically. Recent developments include smaller increases in milk production in March and April compared with a year ago, continued strong export and domestic commercial demand for nonfat dry milk, and less than projected increases in cheese production and continued strong cheese sales. Estimates through fiscal year 1990 will be included in the mid-session budget review.

QUESTION FROM SENATOR LEAHY NO. 7

With S. 553, Congress adjusted the relative purchase prices for butter and non-fat dry milk. Overall, consumer demand for higher fat products is falling.

Question. What longer term measures should the committee consider to deal with the problem of butterfat and the general component makeup of milk?

Answer. The market will work to balance the supply and demand for milk fat and nonfat milk solids. As long as the Department has full flexibility to align Commodity Credit Corporation (CCC) purchase prices for butter and nonfat dry milk to reflect the market clearing prices for these products, we can respond to and reduce false signals as to the value of milk components. Presently, our purchase prices for butter place more value on milk fat than justified by the market. On April 1, we took the first step to align our purchase prices with market prices of butter and nonfat dry milk. And, on July 1, when we must reduce the support price by 50 cents, we have both an opportunity and a requirement to make a further adjustment.

A review of the quantities of milk fat and nonfat milk solids purchased by CCC in the past shows a continuing pattern of change. In a very few years CCC purchases have been in the ratio of 1 pound of milk fat to 1.8 pounds of nonfat solids as naturally occur in raw milk. With full flexibility in establishing purchase prices for butter and nonfat dry milk, CCC has been able to reflect changing market situations in the purchase prices and continually move toward the goal of purchasing components as they occur in milk.

The changing market values of milk fat and nonfat milk solids are signals to dairy farmers to change their production and managements practices as necessary. In response to these market signals, adjustments can be made in feeding and breeding practices by dairy farmers to change the composition of milk marketed. We fully expect that feed mills and those involved in breeding and artificial insemination will respond to the demands of dairy farmers and will develop products to aid them in changing the composition of milk.

QUESTION FROM SENATOR LEAHY NO. 8

Question. What are your views on a two-tiered or other supply management proposal for the dairy industry?

Answer. In general I believe that the supply of milk and dairy products should be directed by market oriented forces. Programs which set quotas for marketings or for the payment of milk restrict innovation. This is unfair to efficient dairymen and to consumers.

It is really hard to be more specific in answering your question, because it is hard to comment on two-tier pricing or any other program without more specifics. For instance, some who talk about a two-tier program refer to a "market clearing price" as the second-tier price. If we are going to allow the market to clear and the price to float, it raises a question concerning the continuation of the purchase program. And, in this instance, what would be the first-tier price?

QUESTION FROM SENATOR LEAHY NO. 9

Question. What are your views on a proposal that would establish target prices and loan rates for dairy products, in lieu of the current product purchases program we now operate?

Answer. Here again, it is really hard to comment on a program of target prices and loans for dairy products without more specifics. As you know, milk is different from most other commodities in that it is perishable and it is continually produced. Dairy farmers cannot use milk as collateral and receive a loan from the government as a corn farmer can do. A third party must be involved to convert milk into a storable product. Just some of the questions that arise are: At what level (raw milk or finished product) do you establish the target prices? And, to whom does the collateral belong, the dairy farmer or the processor?

QUESTION FROM SENATOR LEAHY NO. 10

Several dairy representatives are concerned that the GATT negotiations will harm the industry by eliminating section 22 protections. Others, including those within the administration, have suggested that the United States could become a major force in world export markets and that loss of section 22 protection would not seriously affect the industry.

Question. Please provide a quantitative analysis describing the performance of the U.S. dairy industry in a free, world market environment.

Answer. Section 4504 of the Omnibus Trade and Competitiveness Act of 1988 directed a study "to determine whether, and to what extent, the price support program for milk would be affected by a reduction in, or elimination of, limitations imposed on the importation of certain dairy products under section 22 on the Agricultural Adjustment Act . . . as a result of multilateral trade negotiations. . . ."

A draft report on the effects of changes in section 22 dairy quotas is under review at USDA. A copy of the report will be forwarded to you as soon as it is completed.

Conservation

QUESTION FROM SENATOR LEAHY NO. 11

Question. Do you foresee any changes from current Conservation Compliance policy during the period 1990–1995, when the compliance plans are to be implemented? If so, what are these changes?

Answer. Under the "conservation compliance" provision, farmers must have approved conservation plans by January 1, 1990, and fully implement the plans by January 1, 1995, to remain eligible for certain Department of Agriculture (USDA) benefits. As of March 1989, conservation compliance plans have been completed on 105 million acres of highly erodible land, representing 78 percent of the plans needing completion by the end of 1989. The Soil Conservation Service (SCS) expects to meet the USDA's goal to have plans in place for all highly erodible land by the end of 1989.

Changes to current conservation compliance policy are not foreseen at this time. Any proposals for change must consider all the plans that have already been completed.

QUESTION FROM SENATOR LEAHY NO. 12

Question. With respect to the 1990 farm bill, are there any specific issues in conservation policy that you want to see addressed or any new directions pursued?

Answer. The 1990 farm bill must devote considerable attention to the environmental issues of air and water quality as well as the traditional concerns of soil and water conservation. The Congress can deservedly take pride in the conservation provisions of the 1985 Act. The Conservation Reserve Program, conservation compliance, "sodbuster", and "swampbuster" provisions represent major advancements toward an environmentally-sound agriculture that must be maintained.

However useful these new conservation tools may be, the administration and the Congress must recognize that so long as income supports are linked to price supports there will be a tremendous stimulus for farmers to produce. Generating huge surpluses not only cost taxpayers large sums of money, but it may also have adverse environmental consequences. If this country is to have an environmentally sustainable agricultural production system over the long run, ways must be found to gradually diminish the connection between income supports and production levels.

One of the major objectives of the farm bill should be to reduce the rigidity of our present commodity price and income support programs. Farmers want and deserve more flexibility in choosing the crops they plant, in their participation in the acreage reduction programs, and in other important decision areas affecting their long-term production and marketing plans. If properly designed, this additional flexibility should result in both increased economic efficiency and long-term benefits to farmers, the environment, and to society. Commodity target price relationships should also be reviewed. These relationships presently encourage production of certain crops and discourage the production of others. There is often no apparent economic rationale for the differences in prices, and the distortions introduced by the prices have not only hurt U.S. farmers in some international markets, but may also have stimulated excessive erosion and agricultural chemical use.

The administration is currently working on proposed legislation that would seek to replace the Water Bank Program, and its program of 10-year contracts, with a permanent conservation easement program. The proposed legislation would provide the Secretary of Agriculture with the authority to acquire permanent easements for the protection of wetlands. Specifically, the use of permanent easements would eliminate the loss of wetland protection that currently occurs when Water Bank Program contact holders decide not to renew their agreements, or when insufficient funds are available to renew all expiring contracts.

It is important that research and education programs focus on national priorities. Programs that enhance understanding of fundamental plant and animal sciences and address specific environmental priorities must take precedence over earmarked programs of local interest. A strong competitive grants program can effectively target scarce resources to scientifically meritorious projects that will provide the basis for development of solutions to environmental problems. Many unanswered questions remain that limit understanding of the fate and transport of agricultural chemicals and the impact of various management systems on the movement of these chemicals. These questions must be addressed and producers must be informed of management strategies that can be implemented to assure an environmentally sound and profitable agriculture.

The Conservation Reserve Program

QUESTION FROM SENATOR LEAHY NO. 13

Question. Are there actions that the Department can take, under current authority, to cause or encourage a significant increase in filter strip acreage enrollment in the CRP? If so, what are these actions? If not, are there changes in authority that should be included in the 1990 farm bill to make possible greater filter strip enrollment?

Answer. The current filter strip enrollment volume of 29,652 acres is significant but is not substantial in relation to total acres enrolled. This is partly due to the fact that many field areas near water bodies are ineligible for CRP enrollment as filter strips because they lack cropping histories since areas of native grass or trees are frequently established on the opposing sides of field roadways and used as turning areas. These field boundary areas often currently function as filter strips.

In the past the Secretary has offered special incentives for placement of certain kinds of land in the CRP. The "corn bonus" offered in the fourth sign-up is an example. However, USDA does not recommend such bonuses because: (1) the cost can be substantial; (2) bonuses alienate contract holders that have previously placed the same kind of land in the program; and, (3) bonuses may be paid with respect to many acres that would have been enrolled without the bonus. Further, the ability of the Secretary to offer special incentives to attract particular lands has been restricted by recent CRP appropriations which have prohibited the use of funds to enter into any new CRP contract if the rental payment would exceed the rate determined to be the prevailing local rental rate for an acre of comparable land. Also, because only cropland can be enrolled in the CRP, a legislative change would be necessary to substantially increase the acres enrolled in the CRP as filter strips.

QUESTION FROM SENATOR LEAHY NO. 14

Question. The Department recently announced that cropped wetlands and lands subject to scour erosion are now eligible for the CRP. Please provide quantitative analysis of the number of acres, by State, that have been made eligible by this provision. Also provide quantitative analysis of the number of acres of cropped wetlands and land subject to scour erosion, by state or region, that are expected to be enrolled under this provision for a 40 million acre CRP.

Answer. The enclosed table provides an estimate of the total volume of acreage made eligible with the recent cropped wetland and scour erosion CRP cropland eligibility criteria changes. This information was estimated from the 1982 National Resources Inventory (NRI) survey. The estimates shown were developed by quantifying the eligibility criteria with variables that are present on the survey and are only estimates. Sources of possible error include: (1) inaccuracies present in any data extrapolated from samples; (2) the lack of the precise variables needed to accurately prepare such estimates; (3) acreage eligibility overlap between these two criteria categories and between previously established criteria categories; and (4) eligibility restrictions that pertain to the 25 percent limit on cropland enrollment in individual counties; and (5) cropping and ownership history requirements. Because of these limiting factors, these estimates, while believed to be somewhat representative, should be used only for general analysis and not for work requiring significant amounts of reliability or accuracy. Also included on this table are estimates of the actual volume of eligible acreage that the Department projects would likely be enrolled out of total enrollment of 40 million acres. These estimates were developed using a straight line estimating technique, and are also subject to large error.

	Total eligible scour acres [1]	Projected scour acreage enrolled [2]	Total eligible wetland acres [1]	Projected wetland acreage enrolled [3]
United States	607,500	30,375	3,866,600	773,320
Alabama	45,300	2,265	234,100	46,820
Alaska	0	0	0	0
Arizona	0	0	0	0
Arkansas	71,400	3,570	3,800	760
California	1,500	75	31,200	6,240
Colorado	1,600	80	88,200	17,640
Connecticut	0	0	2,800	560
Delaware	0	0	0	0
Florida	16,900	845	35,400	7,080
Georgia	9,300	465	23,500	4,700
Hawaii	0	0	0	0
Idaho	13,100	655	32,300	6,460
Illinois	30,300	1,515	368,600	73,720
Indiana	16,100	805	43,700	8,740
Iowa	27,000	1,350	4,300	860
Kansas	106,100	5,305	8,900	1,780
Kentucky	36,100	1,805	78,000	15,600
Louisiana	17,100	855	4,800	960
Maine	0	0	26,800	5,360
Maryland	1,800	90	7,400	1,480
Massachusetts	1,100	55	3,900	780
Michigan	6,400	320	40,400	8,080
Minnesota	2,000	100	63,800	12,760
Mississippi	3,700	185	7,000	1,400
Missouri	46,800	2,340	11,300	2,260
Montana	0	0	116,600	23,320
Nebraska	6,700	335	97,300	19,460
Nevada	0	0	0	0
New Hampshire	2,200	110	0	0
New Jersey	0	0	10,100	2,020
New Mexico	0	0	0	0
New York	3,000	150	68,800	13,760
North Carolina	22,600	1,130	12,900	2,580
North Dakota	1,300	65	959,200	191,840
Ohio	12,800	640	251,400	50,280
Oklahoma	11,400	570	0	0
Oregon	1,400	70	149,300	29,860
Pennsylvania	18,100	905	37,900	7,580
Rhode Island	0	0	300	60

—Continued

	Total eligible scour acres [1]	Projected scour acreage enrolled [2]	Total eligible wetland acres [1]	Projected wetland acreage enrolled [3]
South Carolina	1,600	80	1,900	380
South Dakota	1,200	60	388,100	77,620
Tennessee	24,800	1,240	225,400	45,080
Texas	12,100	605	47,300	9,460
Utah	2,000	100	30,200	6,040
Vermont	0	0	0	0
Virginia	4,100	205	35,100	7,020
Washington	0	0	55,100	11,020
West Virginia	9,800	490	3,500	700
Wisconsin	2,900	145	224,400	44,880
Wyoming	0	0	31,600	6,320

[1] Based on the 1982 NRI.
[2] Five percent of total.
[3] Twenty percent of total.

QUESTION FROM SENATOR LEAHY NO. 15

Question. Please provide detail on the assumptions used in the President's budget to estimate the out-year expenditures for a 40–45 million acre CRP. Include detail on the assumed cost-share payments for cover establishment and the assumed rental rates.

Answer. The administration proposed a total enrollment of 40 million acres for the President's 1990 Budget. The signup of 40 million acres was considered to be a realistic goal. However, the effects of the 1988 drought, together with the provisions of the Food Security Act of 1985, have raised commodity prices and reduced commodity stocks, thus making it extremely difficult to attract highly productive erosive cropland within budgetarily acceptable rental rates while also complying with the maximum acceptable rental rate provisions of recent appropriation acts. The assumptions for existing acceptable rental rates and estimated cost-share payments were used as the basis for the President's 1990 Budget and to estimate out-year expenditures for a 40 million acre CRP, using actual contract data for enrolled acres and a projection of nationwide average annual rental and cost-sharing rates for acres yet to be enrolled. These rates were used to develop the annual rental and cover costs payments due each fiscal year on crop-year acres through the year 2000. The following table shows the average annual rental and cost sharing rates which were used in developing the costs for each crop-year. Once a particular crop-year's signup is complete, the rental costs for future years is precisely known. It is also assumed that cost-share payments would be expended over a 3-year period during the early years of the contracts, on a 40–50–10 percentage basis.

CONSERVATION RESERVE PROGRAM AVERAGE RENTAL AND COST-SHARE PAYMENTS AS REFLECTED IN THE PRESIDENT'S FY 1990 BUDGET

Crop-year	Acres (in million)	Annual rental		Cost-shares	
		Average rate	Cost (dollars in millions)	Average rate	Total estimated cost (dollars in millions)
1986	1.9	$43.00	$83.3	$38.00	$73.6
1987	13.7	50.06	684.3	38.78	530.1
1988	8.8	48.47	424.4	42.20	373.1
1989 est.	8.1	59.33	480.0	45.00	360.0
1990 est.	7.5	70.04	528.5	45.00	339.8
Total	40.0		[1] 2,200.5		1,676.6

[1] Reflects total annual rental payments due once signups are complete, and assumes 40 million acres are actually enrolled. Total estimated cost of a 40 million acre reserve under the above assumptions is $24.073 billion (FY 1986–FY 2000).

QUESTION FROM SENATOR LEAHY NO. 16

Question. The drought of 1988 and the anticipated declines in Winter wheat production due to this year's extremely dry weather in the Central Great Plains have raised concerns over adequate crop supplies and cropland acreage. Please provide quantitative analysis of likely cropland acreage, crop production and stocks, prices and use for 1990 through 1995 given a 40–45 million acre CRP. Please provide in your answer the commodity program policy assumptions, by year, used to conduct this analysis.

Answer. My farm program people will be working on the agricultural section of the President's Mid-session Review to be completed this summer. We will be undergoing a major review of the supply and demand estimates for the program crops in light of the drought.

The CRP and Water Quality

QUESTION FROM SENATOR LEAHY NO. 17

Question. On November 21, 1988, I and three of my colleagues from the committee sent Secretary Lyng a letter requesting that the Department take immediate action to "develop a program that targets water quality improvements through the CRP". In his response on January 26, 1989, Acting Secretary Meyers stated that the Department does not see the CRP as "a primary instrument for treating water quality problems . . .". He also states that authorities currently in effect, other than the CRP, provide opportunities to address water quality problems with cost-effective measures.

The letter concludes that the Department feels it is prudent to conduct "further analysis" of the opportunities to improve water quality made available by non-CRP authorities. Please indicate the results of this further analysis, including the authorities being investigated and the magnitude and type of water quality benefits that might be anticipated from the implementation of these authorities. If the analysis has not yet been conducted, please indicate the Department's plans and anticipated completion date of the analysis.

Answer. The Bush administration has a budget proposal for a major government-wide initiative to address water quality problems, with emphasis placed on research, demonstration of best management practices, education, and extension. For the Department of Agriculture (USDA), the plan calls for: (1) data gathering and analysis on the uses of agricultural chemicals; (2) research to assess the seriousness and extent of agriculture's impact on ground water quality, and to develop new and improved production systems; and (3) field demonstration projects that will enable the USDA to gain and extend knowledge about specific water quality improvement practices. Reports on the proposal have been prepared and are available now. Implementation planning is underway and will be reported to Congress by September 30. There will be annual reporting on accomplishments and future program plans and funding needs.

Further, USDA has established a 1990 farm bill Conservation Initiatives Task Force, an interagency group with participants from the Environmental Protection Agency, land-grant universities, the Fish and Wildlife Service, and various agencies within USDA. The Task Force's primary goal is to provide rigorous analysis of the costs and benefits of alternative means of achieving environmentally sound production of agricultural commodities under current or proposed authorities. Results should be available for use during consideration and drafting of the new farm bill.

The enclosed table provides an estimate of the total volume of acreage made eligible with the recent cropped wetland and scour erosion CRP cropland eligibility criteria changes.

	Total eligible scour acres [1]	Projected scour acreage enrolled [2]	Total eligible wetland acres [1]	Projected wetland acreage enrolled [3]
United States	607,500	30,375	3,866,600	773,320
Alabama	45,300	2,265	234,100	46,820
Alaska	0	0	0	0
Arizona	0	0	0	0
Arkansas	71,400	3,570	3,800	760
California	1,500	75	31,200	6,240
Colorado	1,600	80	88,200	17,640
Connecticut	0	0	2,800	560
Delaware	0	0	0	0
Florida	16,900	845	35,400	7,080
Georgia	9,300	465	23,500	4,700
Hawaii	0	0	0	0
Idaho	13,100	655	32,300	6,460
Illinois	30,300	1,515	368,600	73,720
Indiana	16,100	805	43,700	8,740
Iowa	27,000	1,350	4,300	860
Kansas	106,100	5,305	8,900	1,780
Kentucky	36,100	1,805	78,000	15,600
Louisiana	17,100	855	4,800	960
Maine	0	0	26,800	5,360
Maryland	1,800	90	7,400	1,480
Massachusetts	1,100	55	3,900	780
Michigan	6,400	320	40,400	8,080
Minnesota	2,000	100	63,800	12,760
Mississippi	3,700	185	7,000	1,400
Missouri	46,800	2,340	11,300	2,260
Montana	0	0	116,600	23,320
Nebraska	6,700	335	97,300	19,460
Nevada	0	0	0	0
New Hampshire	2,200	110	0	0
New Jersey	0	0	10,100	2,020
New Mexico	0	0	0	0
New York	3,000	150	68,800	13,760
North Carolina	22,600	1,130	12,900	2,580
North Dakota	1,300	65	959,200	191,840
Ohio	12,800	640	251,400	50,280
Oklahoma	11,400	570	0	0
Oregon	1,400	70	149,300	29,860
Pennsylvania	18,100	905	37,900	7,580
Rhode Island	0	0	300	60
South Carolina	1,600	80	1,900	380
South Dakota	1,200	60	388,100	77,620
Tennessee	24,800	1,240	225,400	45,080
Texas	12,100	605	47,300	9,460
Utah	2,000	100	30,200	6,040
Vermont	0	0	0	0
Virginia	4,100	205	35,100	7,020
Washington	0	0	55,100	11,020
West Virginia	9,800	490	3,500	700
Wisconsin	2,900	145	224,400	44,880
Wyoming	0	0	31,600	6,320

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[1] Based on the 1982 NRI.
[2] Five percent of total.
[3] Twenty percent of total.

Farmers Home Administration and Conservation Easements

Question From Senator Leahy No. 18

Question. The Farm Credit Act of 1987 gave the Secretary the authority, among others to write-down a producer's FmHA debt in exchange for permanent easements on a portion of the producer's land suitable to conservation uses. Conservation easements in exchange for debt reductions can provide environmental benefits while contributing to the long- and short-term solvency of FmHA borrowers.

Please indicate how many conservation easements have been created under this provision, the number of acres involved and the distribution by State.

Answer. The FmHA has not, at this time, implemented a program to capture and store the information requested, therefore this information is not presently available. However, this information should be available beginning in July 1989. Borrower interest in conservation easements in exchange for debt write down has been very limited.

Question From Senator Leahy No. 19

Question. Is there any programmatic reason why this authority, exchanging conservation easements for debt write-down, could not be applied to all past and future debt incurred by FmHA borrowers?

Answer. The existing FmHA procedure and statutory requirement limit debt write-down in exchange for conservation easements to borrowers whose debt is secured by real estate and whose loans were closed prior to December 23, 1985. Any debts incurred after December 23, 1985, are not eligible for write-down in exchange for conservation easements.

Question From Senator Leahy No. 20

Question. Please provide suggestions, if possible, for how such a policy might be implemented.

Answer. Legislation is required in order to write-down future real estate debt in exchange for conservation easements. At this time we do not recommend any changes to the conservation easement debt exchange program. As we work with those who requests conservation easements, we may become aware of needed revisions to enhance or improve the program. Such revisions will be considered at that time.

Research

Question From Senator Leahy No. 21

Agricultural research has been level-funded for the past 20 years. Some argue that this is merited because the system has failed to respond to changing priorities and technological breakthroughs. It is argued that the same old research is being ~~done at the~~ expense of pressing concerns in areas such as sustainable agriculture, biotechnology and agricultural education.

Question. What structural changes do you propose for science and education that may improve this situation? Specifically, do you support the National Academy of Sciences proposed $500 million new dollars for competitive research grants?

Answer. I do not agree with the premise that the system has failed to respond to changing priorities and technological breakthroughs. The Agricultural Research Service and the federally-supported State Agricultural Experiment Stations have generally kept pace with emerging needs and technologies. I will be working closely with the Assistant Secretary for Science and Education, Charles E. Hess, to improve our research and education programs. I am particularly interested in accelerating technology transfer programs, supporting basic science as a foundation for future advances, development of new non-food, non-feed uses for agricultural commodities, addressing environmental issues, and using the new technologies to improve the viability of American agriculture in the world market place. I am aware of the National Research Council's proposed $500 million initiative, but I am not familiar with the specifics of the proposal. Assistant Secretary Hess was involved in the development of the proposal, and I look forward to discussing it with him.

QUESTION FROM SENATOR LEAHY No. 22

How would you restructure our facilities program to ensure maintenance of older facilities and an adequate planning procedure for the construction of new facilities?

Answer. The issue of the construction and maintenance of research facilities is one which we must address in the immediate future. For instance, the Agricultural Research Service estimates that approximately $350 million will be required over the next few years to repair, improve, and replace older ARS laboratories. The university system is also facing the need for laboratory improvements.

Investments in facilities represent long-term commitments and must be carefully considered in light of projected research priorities and staffing patterns. The drain of operating excess lab capacity will further constrain already tight research budgets. Therefore, we cannot afford to build new facilities that are not carefully planned in light of available capacity and the ability to adequately utilize the new capacity. At the same time, I am aware of needs for facilities—in many cases major modernization of existing labs or construction of replacement labs where no modernization of existing labs or construction of replacement labs where no modernization of existing labs or construction of replacement labs where no net increase in capacity occurs. Opportunities to close facilities which are no longer justified must also be carefully considered, particularly where capacity exists elsewhere in the system to conduct the research. Over the past five years Congress has appropriated more than $150 million for construction of various university building projects. The majority of these projects were inserted into the budget without benefit of peer review to certify a program need of national scope. We need to work jointly to support legitimate facility needs without adding excess capacity which will drain resources from operating research programs. I will be looking to Dr. Hess to provide leadership in this area. with agriculture. Some projects are only remotely connected with agriculture.

QUESTION FROM SENATOR LEAHY No. 23

Question. Do you see any possibility for a closer administrative connection between CSRS and the Extension Service?

Answer. Yes. In order to bring about improvements in our program to transfer technology from the laboratory to the field, it is most desirable to have a close working relationship between the Extension Service, the Cooperative State Research Service, and the Agricultural Research Service.

QUESTION FROM SENATOR LEAHY No. 24

Question. Do you recommend full funding of the Agricultural Productivity Act known today as the CSRS Low Input/Sustainable Agriculture program?

Answer. I have indicated before that I believe support for sustainable agriculture research is justified. The research agencies have been involved in this type of activity for several years. I will have an opportunity to examine sustainable agriculture funding in the context of the FY 1991 budget.

Responses to Senator Baucus' Questions

QUESTION FROM SENATOR BAUCUS No. 25

Question. As you know, the Export Enhancement Program has been a successful tool in making the United States more competitive in world markets. Do you intend to continue to support the aggressive use of this program to further U.S. interests and counter the European approach?

Answer. USDA intends to continue using EEP to compete effectively with subsidized EC exports. This is essential, both to enhance our MTN bargaining power and to maintain the U.S. position in world trade against inroads from subsidized competition.

QUESTION FROM SENATOR BAUCUS No. 26

Question. I am concerned that the EEP has been used too exclusively to export only Winter wheat. Three grains produced in my part of the country—Spring wheat, Durum, and barley—have gotten less than their fair share. In fact, use of the EEP last year for Spring wheat and barley was down by between 50 and 75 percent. I have even heard disturbing reports that the USDA is encouraging foreign customers to buy Winter wheat and no Spring wheat. I would like you both to promise that

USDA policy regarding exports of Spring wheat, Durum, and barley will be reviewed, and that you will see to it that Spring wheat, Durum, and barley are getting a fair shake.

Answer. I believe that most of the concerns about low participation in the EEP by Spring wheat, Durum and barley have arisen because of last year's drought in our Northern States and the fact that resulting prices of those grains on our market, relative to grain from other parts of our country, became higher than usual. We will certainly look at this question; we want these grains that are produced in our Northern States to have a full opportunity to benefit from bonuses equal to those being used for grains that are produced elsewhere in this country. The choice of which type of wheat is bought is up to the foreign buyer. If it takes a much larger subsidy to enable U.S. Durum to compete with European Durum in the Algerian market than it does to enable U.S. bread wheats to compete with European bread wheat in the Algerian market, then we have a more difficult issue. The size of the subsidy may depend more on whether or not Europe is using bigger subsidies on Durum or because our own supply is resulting in a higher price. If the latter case exists, we will certainly be criticized by other grain producers if they see escalating Durum subsidies chasing our internal Durum prices upward. The same applies for barley. But, we will watch the market situation carefully for prudent opportunities to use EEP for Spring wheat, Durum and barley.

QUESTION FROM SENATOR BAUCUS NO. 27

Question. At last week's hearing before the International Trade Subcommittee of the Finance Committee, your representatives stated that the Department intended to review the Export Enhancement Program. What will that review consist of and when will it be completed?

Answer. The review of the Export Enhancement Program will look at whether the objectives and criteria we have operated the program under have been met and whether the objectives and criteria themselves are still appropriate. We hope to complete such an administration review of the EEP very soon, within the next few weeks.

QUESTION FROM SENATOR BAUCUS NO. 28

Question. Wheat farmers have asked for an additional EEP sale to the Soviet Union during this marketing year to move some of the surplus stocks. Do you support such a sale to take place in the very near future?

Answer. On May 2, President Bush approved an authorization for making available bonuses under the Export Enhancement Program with respect to the sale of 1.5 million metric tons of wheat to the Soviet Union. I fully endorsed this initiative.

QUESTION FROM SENATOR BAUCUS NO. 29

Question. Let's talk about the oat price support program. Farmers in my State grow a lot of oats, however, the oat program set price supports so low that oat growers were discouraged from growing oats and as a result the U.S. suffered a shortage of oats and was forced to import this commodity. What does the administration intend to do to encourage farmers to produce oats and thus protect the United States from this type of occurrence in the future?

Answer. Because of the shortage in oats, several special program modifications have been made. The acreage reduction percentage for oats has been held at 5 percent in 1988 and 1989 and no paid land diversion has been offered, while other feed grains have faced 10 to 20 percent acreage reductions, with a 10 percent paid land diversion in 1988. This means that producers who want to be in the Government program for oats can plant more of their crop acreage base than producers of other feed grains.

The limited cross compliance restrictions have not been applicable to oats for several years. This means that producers willing to forgo program benefits for oats may plant oats without restriction and still be eligible for benefits for corn, wheat, or other program crops they normally grow. However, because barley and oats crop acreage bases are combined, producers cannot be eligible for program benefits for barley if their oats acreage plus required acreage reduction, exceeds the combined oats/barley base.

Oats may be substituted for any portion of the farm acreage base except for that acreage designated as soybeans. Program benefits applicable to oats will be available for the planted oats acreage, provided the acreage reduction is maintained and other program requirements are met. The acreage planted to oats will be considered planted to the crop for which substituted when computing planting history and acreage bases for the farm.

If shortages continue, and to the extent possible, these program advantages for oats will be maintained in the future.

QUESTION FROM SENATOR BAUCUS NO. 30

Question. People in my State produce a lot of beef for export. What is the administration doing to reclaim the European beef market that was lost due to the growth-promoting hormone controversy?

Answer. In February, Ambassador Hills and I met with our counterparts from the European Community and agreed to create a Task Force that would be charged with finding ways to renew U.S. exports of beef and beef products to the EC consistent with U.S. production practices and EC law. The Task Force has met three times and reached agreement on an interim measure operated by the EC that will allow U.S. producers of meat not treated with hormones to ship to the Community. This is only the first step in the direction of a comprehensive solution; a significant portion of U.S. trade in beef and beef products, especially offals, is still banned from the EC market. The Task Force will continue addressing individual components of the trade until a complete resumption of U.S. exports has been achieved.

Apart from the immediate issue of lost trade, however, the U.S. is committed to taking a firm stand on the fundamental principle that countries cannot be permitted to erect barriers to trade solely on the basis of the scientifically unfounded health concerns of their consumers. As a major food exporter, the EC has as much to lose as we do by establishing a precedent that is not consistent with this principle. We have said all along that the hormone issue is a symptom of the much larger problem that stems from countries acting contrary to this principle. For this reason, it is essential to the future of world agricultural trade that an effective dispute settlement mechanism and stronger rules on health and safety issues related to food products emerge from the Uruguay round of GATT trade negotiations.

Responses to Senator Bond's Questions

QUESTION FROM SENATOR BOND NO. 31

Question. As you know, planting flexibility has become a popular topic. Last year's drought bill included a provision which gave producers the option to plant 10-25 percent of their base to sunflowers or soybeans. There was great interest in this provision and approximately 3.5 million acres were enrolled. Because USDA indicated prices would fall below the $5.49 limit, farmers will be allowed to plant 80 percent of what they signed up for.

This provision was mandatory this year and discretionary next year. As we consider the various flexibility alternatives, what are your thoughts on once again utilizing this provision from the drought bill? When could we expect an announcement on whether or not this provision will be extended?

Has the Department analyzed programs which would give producers additional planting flexibility? Would you recommend that we consider these alternatives as part of the farm bill or as a tool for budget reconciliation purposes?

I have introduced legislation which would give producers flexibility to plant industrial crops on base acreage without a corresponding reduction in that base. The legislation applies to six crops which have been identified as having significant commercial potential—guayule, crambe, kenaf, high-erucic rapeseed, meadowfoam and milkweed. What are your thoughts on providing limited base protection to producers who wish to experiment with these new crops?

Answer. I will seriously consider offering the option to plant soybeans and sunflowers on 10 to 25 percent of permitted program crop acreage in the 1990 crop-year. It makes good sense to provide farmers with this opportunity. The one drawback of offering this option is the difficulty in assessing the price impact and determining the appropriate limits to apply.

As you know, the law requires that the Secretary of Agriculture limit or prohibit planting under this option if the price of soybeans is estimated to fall below 115 percent of the previous year's loan rate. Thus, even if farmers are given the chance to sign up, the price limiting requirement may make it impossible to tell whether planting would be limited or prohibited until the last minute. That's the best we can do, given the provisions in place.

One of my objectives in working on the new farm bill is to reduce the rigidity of our present programs. Farmers want and deserve more flexibility in what they plant. We should work on programs, that if properly designed, should increase flexibility while increasing efficiency and providing long-term benefits to producers and society.

My farm program people have been looking at several options to achieve these goals including decoupling schemes and the "triple base option." I hope to be firming up my opinions on these programs as well as other proposals in the near future.

Regarding legislation recently introduced by you to amend section 504(b) of the 1949 Act, I wholeheartedly endorse the effort to give producers flexibility to plant alternative crops for which important markets may develop. Farmers should be given the opportunity to experiment with alternative crops without fear of losing program crop base in future years. I particularly like the aspect that this proposal erases a potential constraint to planting flexibility while it does not increase the use of taxpayer's dollars to support farmers in this type of venture.

QUESTION FROM SENATOR BOND NO. 32

Question. The current farm bill includes provisions to implement multiyear set-asides. To date, this discretionary authority has not been implemented. Land set-aside for more than 1 year could improve the feed value in drought years when haying and/or grazing is necessary. Also, this type of program could lead to significant wildlife benefits. What are your thoughts on giving producers the option to enroll a portion of their annual unpaid set-aside acreage in a program which would allow them to keep it out for a period of say 3 years?

Answer. Section 1010 of the Food Security Act of 1985 provides the Secretary of Agriculture discretionary authority to offer multiyear set-asides as part of any annual feed grain, wheat, rice, or cotton program for the 1986 through 1990 crop-years. Since the 1986 crop-year, some individuals and interest groups have requested implementation of such multiyear acreage set-asides under current authority (or, more recently, as a proposal for up-coming legislation) as a means to simultaneously achieve conservation-related and price income support objectives.

However, because of (1) the uncertainty of world commodity production and marketing conditions and the consequent variation in production adjustment requirements, (2) the voluntary nature of annual commodity program participation, and (3) the need to target limited program funds toward highly erodible or other environmentally sensitive land, multiyear set-asides have been determined to be an inappropriate tool for accomplishing either of the program objectives.

Further, USDA conservation and commodity programs provide many incentives and opportunities for producers to simultaneously provide long-term protection for soil, water, and wildlife resources and/or obtain annual commodity price and income support.

1. Long-term conservation programs

—The Conservation Reserve Program (CRP)

- Reduces excess crop production capacity and protects natural resources on a multiyear basis (at least 10 years). Currently more than 30 million acres are enrolled or bid into the program, and the statutory goal is to enroll at least 40 million acres by the end of the 1990 crop-year.
- Provides cost-share establishment of wildlife habitat cover.
- Accepts annual wildlife food plots as an acceptable cover.
- Supports complementary State conservation and wildlife programs.
- Has had regulations modified to increase long-term retirement and enhance wildlife habitat by (1) extending eligibility to cropland subject to scour erosion, if planted to trees, and (2) reducing eligibility requirements for all acreage planted to trees.
- Has also had regulations modified to include cropped wetlands if replanted to trees, native grasses, or wetland vegetation.

—Swampbuster regulations help maintain wildlife habitat and discourage conversion of wetlands to cropland.

—Sodbuster regulations also contribute to resource conservation and discourage the conversion of highly erodible forestland, rangeland, and pasture to cropland.

—Conservation compliance provisions encourage producers to apply protective conservation practices on highly erodible cropland.

—The Agricultural Conservation Program (ACP), Water Bank Program, and Forestry Incentives Program provide cost-share assistance to producers for practices that protect natural resources for multiyear periods.

2. Annual commodity program

—State ASC committees consult with State wildlife agencies in establishing cover and weed control requirements.

—Regulations permit acreage reserve conservation (ACR) and acreage to conserving uses (CU) designated for 1 year to retain eligibility for designation through 1990.

—ASCS encourages farmers planning to participate in annual programs to designate same land each year as ACR and devote such acreage to permanent vegetative cover.

—ACP provides cost-share assistance for establishing permanent cover for 5 years on ACR eroding above the soil loss tolerance level.

—Regulations permit establishment of wildlife food plots on ACR as an acceptable cover practice.

—Regulations permit small grains planted on ACR to mature and fall to form wildlife food and cover.

—Regulations permit ACR acreage planted to trees to be acceptable as ACR for the following commodity program year.

—Regulations permit cost-share assistance for permanent cover establishment on and designation of 1990-accepted CRP acreage as ACR for 1989.

—Regulations permit spot control and chemical control of weeds to avoid disturbing nesting wildlife.

—Regulations permit State and County ASC committees to delay final weed control dates until weeds reach maturity (usually past critical nesting periods).

Although no direct cost-share assistance is generally provided for the establishment of cover crops on annual program acreage, program benefits—around $22 billion in budget outlays for fiscal year 1987 and $12 billion for fiscal year 1988—provide sufficient compensation to participants.

Based on analysis of the CRP and the ACP, the cost of establishing a permanent or multiyear cover typically ranges from $60 to $90 per acre. USDA usually provides 50-percent financial assistance for most approved cost-share practices.

QUESTION FROM SENATOR BOND NO. 33

Question. It looks like it will be difficult to get another 8 million acres in the CRP by the end of this year without increasing acceptable rental rates or further expanding the eligibility criteria. What are your thoughts about this and is the Department committed to reaching the 40–45 million acre goal? Has consideration been given to utilizing these funds for providing some kind of cost-share assistance to producers who must implement significant conservation practices (i.e., terraces) in order to remain in compliance?

Answer. The Department is committed to carrying out cost-effective measures that will result in a 40-million acre Conservation Reserve Program (CRP). Over 30 million acres will have been enrolled in the CRP when contracts from the recently held eighth signup are finalized.

Participation might be increased during the final signups because these will be the last opportunities to meet conservation compliance requirements by enrolling acreage in the CRP.

The Department does not support large-scale increases in maximum acceptable rental rates (MARR's) or broad expansions of the acreage eligibility criteria as methods to encourage program participation. In fact, there are requirements to hold CRP rental rates to levels that do not exceed prevailing rates on comparable land. Selected changes in the eligibility criteria that result in substantial natural resource benefits can be supported. The Department is currently reviewing proposals for such eligibility changes. Enrollment promotion measures, such as announcing the MARR's before signups are held and general publicity efforts, are also being reviewed.

Farmers who enroll eligible highly erodible land in the CRP and establish and maintain permanent vegetative cover in accordance with the contract will remain in compliance during the contract period. Cost-share assistance is available under the Agricultural Conservation Program and other conservation programs to implement conservation practices on land not enrolled in the CRP.

QUESTION FROM SENATOR BOND NO. 34

Question. In your testimony you question whether "annual outlays for price and income supports at levels significantly above the long-term average are defensible to the American taxpayer." I too, wondered about this. The President's proposed FY90 budget is about $1.16 trillion. In FY90, farm program outlays are projected around

$12.5 billion—a reduction of over 50 percent since FY86. This is slightly more than 1 percent of the total budget. Knowing that one of the unwritten necessities of U.S. agricultural policy is cheap food, I am concerned that so much attention has been placed on the cost of Federal farm programs.

What do you believe is an acceptable long-term level of farm program spending? Also, I would be interested in your views regarding an acceptable level of net farm income. Shouldn't we begin this exercise with a net farm income floor in place and develop programs which also meet our budget constraints?

Answer. During the 1970's, farm program outlays averaged $3-$4 billion per year. Over the last 5 years, outlays have averaged $15-$20 billion per year. For the last 2 years, government payments have accounted for more than a fourth of net cash income. Clearly outlays in recent years are not sustainable. While we do not advocate that outlays should return to the level of the 1970's overnight, we ought to be moving in that direction.

It is my belief, and that of most farmers, that farm income should be generated largely by the market and not by the Government. That means the market—consumers interacting with producers—should determine what income level is acceptable, not Government. Guaranteeing a level of income is not in the best long-term interest of agriculture, particularly if loan rates and target prices are operated to achieve the desirable level. For instance, target prices above market prices usually mean acreage reduction programs are necessary to control outlays. Thus, while producers are guaranteed an income level, their income potential is simultaneously limited due to restraints on production. Farm programs and policies that expand markets and allow producers greater production flexibility provide the largest potential for future income growth.

Responses to Senator McConnell's Questions

QUESTION FROM SENATOR MCCONNELL NO. 35

Question. What few general themes does the new farm bill need to include that will cause our highly subsidized foreign competitors to reevaluate their positions on agriculture?

Answer. In order to be of help in the negotiations, the 1990 farm bill should continue programs that increase U.S. competitiveness in world markets and continue to make U.S. programs more market oriented. Those provisions of the 1985 farm bill which have had the greatest impact on U.S. competitiveness include lower price supports and target prices and various export programs. The 1990 farm bill should contain provisions that add former flexibility to commodity programs, make commodity programs more consistent with conservation goals, reform stocks policy, and de-emphasize supply content for purposes of price enhancement.

QUESTION FROM SENATOR MCCONNELL NO. 36

Question. Many of the Kentucky farmers I talk to are often discouraged by the complexity and amount of time required to fill out the necessary forms required to be in compliance. What can be done to simplify this process for both farmers and ASCS offices?

Answer. As you know, the genesis of this issue was the discussion over farm program payment limitations, in 1985 and again in 1987. The Omnibus Budget Reconciliation Act of 1987 provides requirements that apply to "persons" who are "actively engaged in farming." The payment limitation forms were designed to attempt to determine who is a person, and whether these persons are actively engaged in farming.

There are accompanying instruction sheets for the CCC-502A, CCC-5O2B, CCC-502C, and CCC-502D that will assist the producer in completing the forms.

Perhaps there is a better way to make these determinations. If so, we'll try to find it. Our new team in the farm program area will reassess the situation and see if we can simplify the forms and the essential determinations.

QUESTION FROM SENATOR MCCONNELL NO. 37

Question. What plans are being made to protect the highly erodible land that has been enrolled in the Conservation Reserve Program as it ends the 10-year period of retirement?

Answer. Most of the CRP acreage planted to an agricultural commodity upon or after the expiration or breach of the contract will be subject to the Conservation

Compliance features of the Food Security Act of 1985, and producers on such property will be required to have an implemented conservation plan in order to receive farm program benefits.

The future of CRP land after the contracts expire will be very dependent on commodity prices, market conditions, and other internal and external factors. It is still too early to credibly project the real need for extending CRP contracts. The use of extensions to continue to keep CRP land out of production is an option that USDA may consider as contracts near expiration. Additional legislation would only be required to obtain extensions beyond 15 years from the beginning of the contract to be extended.

QUESTION FROM SENATOR McCONNELL No. 38

Question. Will there need to be additional incentives provided in order to achieve the 40 million acres goal of the CRP?

Answer. Including accepted CRP contracts from the recently held eighth CRP signup, USDA expects to have enrolled over 30 million acres into the program. It is believed that many potential program participants are waiting for USDA to increase program benefits before they enroll because the 40 million acre goal seems unreachable to some without added incentives. When signups are about to cease, much of the remaining acreage may be bid for enrollment because it will be the last chance to use the CRP to meet conservation compliance requirements. USDA is committed to carrying out cost-effective measures that will help meet the 40 million acre goal of the program. However, USDA does not support large-scale increases in maximum acceptable rental rates (MARR's) as a method to encourage participation. Broad expansions of the acreage eligibility criteria that are designed primarily to encourage enrollment are also not advocated.

Selected changes in the eligibility criteria that result in substantial natural resource benefits are supported. USDA is currently reviewing proposals for such eligibility changes. Enrollment promotion measures and general publicity efforts are also being reviewed.

QUESTION FROM SENATOR McCONNELL No. 39

Question. The word flexibility is fast becoming the watch word for the 1990 bill. Is the USDA currently doing any studies on how more flexibility can be added to farm programs? What suggestions do you currently have?

Answer. One of my objectives in working on the new farm bill is to reduce the rigidity of our present programs. Farmers want and deserve more flexibility in what they plant. We should work on programs, that if properly designed, should increase flexibility while increasing efficiency and providing long-term benefits to producers and society.

My farm program people have been looking at several options to achieve these goals including decoupling schemes and the "triple base option." I hope to be firming up my opinions on these programs as well as other proposals in the near future.

Responses to Senator Pryor's Questions

QUESTION FROM SENATOR PRYOR No. 40

Question. As you know, my State has a great deal of cotton and rice, both of which have depended and benefited from the marketing loan program. That in mind, and with a short term GATT agreement reached, will it in any way preempt the operation of the marketing loan as it is designed to work?

Answer. The short-term agreement will have no effect on the operation of the marketing loan program under existing law.

QUESTION FROM SENATOR PRYOR No. 41

Question. Does the current work plan of GATT require that the United States have a farm bill in place by December? That is, do we need to expect to be forced into negotiating our next farm bill through GATT?

Answer. The current work plan of the GATT agreement does not address the timing for the new U.S. farm bill. We must move ahead on developing a 1990 farm bill, since major provisions of the 1985 farm bill expire before the scheduled end of the Uruguay round. We intend to consult fully with Congress during the balance of the Uruguay round negotiations, and the progress of the negotiations can be taken into account in the drafting of the farm bill.

QUESTION FROM SENATOR PRYOR NO. 42

Question. Are there any studies available that show the potential on U.S. row crop farm income if the Dunkel Plan is enacted, or accepted?

Answer. The Dunkel Text was an earlier version of the agricultural agreement which was reached at the April Trade Negotiating Committee (TNC) meeting in Geneva. This agreement contains only the framework for the negotiation of long term agricultural reforms and it is, therefore, impossible to assess its affects on farm income.

QUESTION FROM SENATOR PRYOR NO. 43

Question. Mr. Secretary, as you know this year I became the chairman of the subcommittee which has jurisdiction over the Federal Crop Insurance Program.

Arkansas has traditionally had low participation in the program and so I was pleased when the Commission on the Improvement of the Crop Insurance Program was formed. I am hopeful that the Commission will make some meaningful recommendations for legislative changes that our subcommittee and this full committee can consider for inclusion in the 1990 farm bill.

But Mr. Secretary, what I would like to mention to you today is that I believe you can help us along in this process. The Commission's April report contains recommendations for immediate administrative improvements that can be made under existing law. To be effective for the 1990 crop-year, these changes will have to be put in place by July 1.

I am particularly interested in the recommendations on alternative yield plans for adequate coverage and standardized unit definitions, both of which would make this program much more attractive to Arkansas farmers.

My question is how is the Department progressing on the implementation of these recommendations, and can we expect the majority, if not all, of them to be put into place for the next crop-year?

Answer. I read with great interest the interim report of the Commission for the Improvement of the Federal Crop Insurance Program.

The FCIC has already begun to implement almost half of the recommendations and the others are slated for further study or implementation with modifications for crop-year 1990. The standardization of unit definitions is one of those recommendations which the FCIC intends to pursue, although regulatory action is required and can only be achieved for spring-planted 1990 crops.

The matter of providing alternative yield plans as a basis for insurance coverage will require extensive further review. This recommendation could have substantial implications on budgetary costs as well as program participation, and I simply cannot commit to this approach without further review of the crop insurance program in its entirety. I appreciate the work of the Commission and look forward to its final report on July 1, 1989. It is important to find ways to make this program more effective for producers while improving its actuarial soundness.

QUESTION FROM SENATOR PRYOR NO. 44

Question. Since trade protection is specifically addressed in the approved text, please report to this committee how import barriers, such as Japan's rice import policy, were considered?

Answer. By virtue of being party to the April Mid-Term Review Agreement, Japan has committed to discussing all support and protection on all commodities. This means that Japanese import barriers on rice are on the negotiating table. There was little specific mention of Japanese rice policies, or any other country's specific policies, at the April meeting.

QUESTION FROM SENATOR PRYOR NO. 45

Question. Explain how reductions in import barriers will be negotiated? Use Japan's rice import policy as an example.

Answer. As you know, agricultural negotiations will be done on a comprehensive basis, not on a request/offer basis as in previous trade rounds. Under the U.S. proposal, all nontariff market access barriers would be converted to tariffs, progressively reduced, and eventually eliminated.

QUESTION FROM SENATOR PRYOR NO. 46

Question. How was Japan's rice import policy discussed during the Geneva meeting?

Answer. There was little specific mention of Japanese rice policies at the April meeting. The same is true for other specific policies of other countries. We are not yet at that point in the negotiations.

QUESTION FROM SENATOR PRYOR NO. 47

Question. What does "food security" mean in the context of the GATT negotiations?

Answer. The United States believes that true food security is the ability to acquire the food you need when you need it and that the best way to provide for food security is by establishing an unrestricted global trading system. Certain countries view food security in terms of level of self-sufficiency and have used it as an excuse for heavily subsidizing or protecting agriculture. The Mid-Term Review agreement only recognizes that some countries hold this view and allows them to submit proposals for ways to take this into account.

QUESTION FROM SENATOR PRYOR NO. 48

Question. Since Japan contends rice is a "basic food" and they want to remain self-sufficient in its production, how will the "food-security" negotiating guideline be applied to be consistent with the "substantial progressive reductions in agricultural support and protection" objective?

Answer. As stated in the previous answer, the agreement allows countries to submit proposals on this issue.

QUESTION FROM SENATOR PRYOR NO. 49

Question. Does the United States accept the Japanese position that they must remain self-sufficient in rice production for food security reasons?

Answer. As stated above, the United States does not believe that food security and self-sufficiency are the same thing.

QUESTION FROM SENATOR PRYOR NO. 50

Question. What is your understanding regarding Japan's position on negotiating a reduction in the rice import barrier during the Uruguay GATT round?

Answer. By virtue of being party to the April Mid-Term Review Agreement, Japan has committed to discussing all support and protection on all commodities. This means that Japanese import barriers on rice are on the negotiating table.

Responses to Senator Daschle's Questions

QUESTION FROM SENATOR DASCHLE NO. 51

Question. Would you be willing to accept lower farm income as a consequence of changes or extensions to the current farm programs beyond 1990? Do you make a distinction between what is acceptable in terms of the impact changed programs would have on aggregate U.S. farm income as compared to their impact on the farm income of, say, an average South Dakota corn and soybeans family farm operation?

Answer. I do not believe in preserving the status quo in any industry. We cannot insulate farm incomes from market conditions without sacrificing competitiveness and entrepreneurial innovation. Farmers' incomes should reflect production and marketing efficiency and supply and demand developments in U.S. and world markets. Under the 1985 Act, farm income reached a new record each year over the 1986–88 period, although target prices and loan rates were both phased down. A primary reason for the increased farm income was expanded markets at home and abroad. We are now concentrating our energy on the Uruguay round of trade negotiations to dismantle the barriers to world agricultural trade. Successful negotiations are the next step in sustaining the export recovery of recent years. While there is no guarantee farm income will be a high level each year, a continuation of a policy that allows U.S. farmers to expand production and compete in world markets holds the best prospects for increasing farm marketings and income in the future. There is no reason to not believe that such a policy would be mutually beneficial to an average South Dakota corn and soybeans family farm operation.

QUESTION FROM SENATOR DASCHLE NO. 52

Question. In briefings on the outcome of the recent GATT talks, USDA officials have cited an administration position paper submitted to the GATT that stated "the

U.S. reached the conclusion that a new direction in farm policy was required. The new direction is known as decoupling, and underlies the U.S. GATT proposal on agricultural reform." USDA officials have indicated that this remains the administration's position. Who in the U.S. reached this conclusion on decoupling, since Congress certainly never articulated such a view? What does this imply for the administration's views on what kind of commodity programs the new farm bill should include?

Answer. Decoupling was cited as an acceptable means of agricultural support by the United States on July 6, 1987, in Geneva. While we continue to view direct income payments which are unrelated to production or price levels as the best way to provide support to farmers in a non-trade-distorting way, in the context of negotiations we are prepared to considering other options as well. Other types of assistance might fit our criteria if their effects on production and trade are minimal. As I have said on numerous occasions, the 1990 farm bill, by necessity, must be completed prior to the completion of the MTN. As a result, the implications of the MTN on the farm bill will not be as great as if the round were complete prior to expiration of domestic farm legislation. It is our intent to consult fully with Congress during the preparation of a final agreement in the Uruguay round negotiations.

QUESTION FROM SENATOR DASCHLE NO. 53

Question. FmHA on April 5, 1989, approved the conservation easement variance requested by South Dakota. Both the State FmHA Office and the Fish and Wildlife Service supported this variance. Thank you for this favorable response that takes into account both the economic and environmental impacts that these easements have on communities. However, County Offices have not received directions on implementation since the regulations will not be finalized until May 3. Given that farmers are trying to purchase land this planting season, this delay will cause farmers to plant late, if they are even able to plant at all. This is of concern since the variance granted for South Dakota is exactly the same as the one that North Dakota has operated under since 1988. When will South Dakotans be able to request a review of the land, and when will the rules be sent to County Office?

Answer. The proposed verbiage for the conservation easement in South Dakota was provided to FmHA by the Fish and Wildlife Service on April 20, 1989. FmHA's Regional Attorney subsequently reviewed and approved the proposed easement document shortly thereafter. The Department of Interior's Solicitors Office has since requested that a final review be conducted by their office. The conservation easement document, as of this time is still under review by the Solicitor. FmHA will be in a position to distribute this document to its field offices as soon as it is received if there are no further revisions suggested.

QUESTION FROM SENATOR DASCHLE NO. 54

Question. I have previously asked you for a clarification of how FmHA inventory lands would be treated if the former owner still has preservation rights. During your confirmation hearing, you indicated that easements would not the applied in this situation. Subsequently you confirmed that decision but indicated that it would require a change in regulations. When can we expect these rules to be finalized? What should I recommend to farmers who are trying to repurchase their own land, what should their plan of action be?

Answer. New regulations are currently being developed. An environmental assessment is being prepared. The assessment could require preparation of an environmental impact statement will most likely have to be developed. The proposed regulation changes will need to be published in the Federal Register. We do anticipate numerous comments to the proposed rule change and final implementation of the rule will reflect the concerns expressed in the comments we receive on the proposed rule.

In the interim, FmHA will continue to operate under existing regulations. Therefore, all existing and incoming requests will be processed in accordance with the existing regulations until a new procedure becomes effective.

QUESTION FROM SENATOR DASCHLE NO. 55

Question. Much of the turbulence in implementing programs at FmHA stems, in my mind, from a lack of accountability. Currently, our State is being run by an Acting Director as are many others. Additionally, the agency as a whole is being run by an Acting Administrator. Without a permanent senior staff that is accountable, many decisions are being delayed. When will you appoint the Administrator and a new South Dakota State Director?

Answer. We are mindful of the reasons supporting prompt decisions on selecting the FmHA Administrator and State Directors. However, we wish to ensure that the widest possible range of eligible candidates are reviewed so that we can make the best selection for these sensitive jobs.

The current Acting Administrator has long years of experience both in the Washington office and in the field, and has extensive program knowledge. Additionally, the former Deputy Under Secretary recently has been detailed to assist the Acting Administrator in managing the Agency. These individuals serve more than capably while we complete the screening process.

Responses to Senator Conrad's Questions

GATT Negotiations and the Farm Bill

Question From Senator Conrad No. 56

Question. If the United States is successful in negotiating the "Decoupling" proposal, what decisions will be left for the Congress on the subsequent farm bill—as I see it we will have (a) an up or down vote on the GATT agreement under "fast-track" rules, (b) a decision to make on whether income and wealth will be part of the "decoupled" payment decision, and (c) a decision on the amount of compensation. Do you disagree with this assessment?

Answer. The exact nature of a successful outcome of the negotiations cannot be predicted at this point. However, the U.S. proposal to have governments move to less trade distorting support policies, such as direct payments unrelated to production and trade, is only one aspect of the negotiations. For all aspects of the negotiations, we will consult fully with Congress during the preparation of the final Uruguay round agreement.

Question From Senator Conrad No. 57

Question. Under pure "decoupling," will the United States be required to rescind all marketing orders?

Answer. As you know, our objective in the negotiations is the elimination of all *trade-distorting* measures. The definition of a "trade-distorting" measure is still the subject of negotiations. Therefore, it is not yet possible to state what, if any, affect the final outcome will have on marketing orders.

Question From Senator Conrad No. 58

Question. Under "decoupling," will farmers benefiting from federally subsidized water be required to pay the full cost of such water in order to avoid violating the GATT proposal? How would such a change affect agricultural production in California, Arizona, and New Mexico? Has the Department done any studies on the effects of "decoupling" on the agricultural economy of those States?

Answer. As indicated in answer to the previous question, the GATT negotiations have not yet progressed to the point where it is possible to make definitive statements on the ultimate acceptability of specific subsidy programs or the effect on the farm economies of the States you mention. We are not aware of any studies on this issue.

Food Reserves

Question From Senator Conrad Nos. 59 and 60

Question. In your testimony, you verified that USDA has slowed down, paused, or suspended EEP awards until the Department has a better understanding of domestic food supplies and prices for the coming year. What is an adequate food reserve for the United States? What is an adequate food reserve for the world?

Answer. U.S. Farmer-Owned Reserve and CCC-stocks have helped to moderate the effects of production variability here and abroad. They have also been used in ways that cost farmers part of their domestic and export markets. Too often farmers have ended up producing for government-financed storage rather than for markets. It has been easy to accumulate stocks under government programs; it has been difficult to release them. We will be reviewing our stocking policies in the coming months, focusing on the level of stocks, their financing, and how to encourage their release during tight supplies. The issue of world-wide stocking policy may be addressed in the context of the discussion of food security issues in the Uruguay round.

Question From Senator Conrad No. 61

Question. If you do not have a "best estimate" of the food reserve needs of the United States and the world, are you initiating any studies to determine a reasonable range of reserves to provide for U.S. and world food security?

Answer. As mentioned in answer to the previous questions, we will be reexamining our stocking policies in the coming months as we prepare for the 1990 farm bill. We have no current plans to do an official study of world food reserves.

Question From Senator Conrad No. 62

Question. Have you initiated any studies in response to the Japanese demand that national food security needs be taken into account in the long-term agreement on GATT?

Answer. No. The United States believes that true food security is the ability to acquire the food you need when you need it and that the best way to provide for food security is by establishing an unrestricted global trading system. We do not equate food security and self-sufficiency. The Mid-Term Review agreement only recognizes that some countries are concerned about food security and allows countries to submit proposals for ways to take those concerns into account. We are prepared to do an analysis of the issue as the details of the long-term reform program, including any provisions there may be on food security, become clearer.

Question From Senator Conrad No. 63

Question. In the discussions at GATT, has the United States made any proposals for world food reserves to provide food security and to share the burden of carrying those reserves? What is the effect of adequate food reserves on prices farmers receive? Has the USDA done any research on this issue?

Answer. The United States has stated that it is prepared to discuss appropriate means of building national food security for all GATT members as part of the process of global agricultural trade liberalization. Food reserves, if not properly managed, can create problems in the market. Stock must be acquired and disposed of in ways that minimize market distortions.

Conservation/Set-Asides

Question From Senator Conrad No. 64

Question. In 1986 through 1988, the United States idled over 200 million acres in total. In 1987 and 1988, about one-fourth of the productive land of the United States was idled through CRP or mandatory set-asides. Is it the position of the United States at the GATT negotiations that other producing nations should initiate conservation reserve programs and other regulations to preserve the environment?

Answer. The United States has not taken a position on this matter, nor has any other party to the negotiations. The GATT is not the appropriate forum for the discussion of environmental policies. However, the United States is willing to consider allowing the use of support policies which take into account environmental objectives if such policies can be implemented in a non-trade-distorting manner. Certain European countries are already unilaterally introducing these types of programs on a small scale.

Question From Senator Conrad No. 65

Question. As you know, North Dakota is home to millions of ducks in the spring and summer. The prairie pothole region extends far into Canada. Has the United States, either through negotiations at GATT or the U.S.-Canadian Free-Trade Agreement, initiated discussions to preserve the pothole region of Canada in order to preserve the summer breeding grounds of wildfowl?

Answer. The GATT negotiations are intended to discuss trade issues, not environmental issues. The U.S.-Canada Free-Trade Agreement is also an inappropriate instrument for addressing such concerns.

QUESTION FROM SENATOR CONRAD NO. 66

Question. Do you think U.S. farmers will remain competitive if the U.S. Government continues to place environmental requirements and restrictions on them while farmers in other countries do not have such restrictions—specifically, the Canadians have no sodbuster/swampbuster laws? Wouldn't it be wise both from an environmental and from a U.S. competitive position to negotiate for stronger environmental restrictions on agricultural production at the GATT negotiations?

Answer. Government policies often have multiple objectives. In this case, U.S. conservation policies are designed to maintain a safe environment for agricultural and non-agricultural interests while not undermining the productivity of U.S. farmers. It is not considered to be the role of the GATT to address environmental issues.

Flexibility

QUESTION FROM SENATOR CONRAD NO. 67

Question. The Secretary has the authority to allow producers of program crops to grow nonprogram crops on permitted acres. There have been a number of requests to grow crops for industrial use—uses that would not compete with food crops. Such flexibility would be a great boost for the development of industrial or "new uses" for agricultural commodities. Will you use your current authority to allow "new uses" crops to be grown on permitted acres?

Answer. Section 504 of the 1949 Act provides for the establishment of crop acreage bases (CAB's) and, among other provisions, sets forth the criteria to be used in determining whether acreage planted to a "nonprogram crop" may be considered as having been planted to a program crop.

In accordance with section 504(b)(2)(D) of the 1949 Act, producers who are participating in the 1989 Wheat, Feed Grain, Upland Cotton, or Rice Programs may plant certain other nonprogram crops on their farms and have a percentage of such acreage considered planted to a program crop for the purpose of establishing a CAB in a subsequent year. In 1989 this percentage is 20 percent of the permitted acreage established for the program crop. In order to have this acreage considered planted to a program crop, the producer must:

1. Participate in the annual production adjustment program established for the program crop;
2. Plant for harvest to the program crop at least 50 percent of the permitted acreage for such crop;
3. With respect to the acreage to be considered planted to the program crop for purposes of protecting the CAB, not plant peanuts, soybeans, Extra Long Staple cotton, or any commodity which is authorized by the Secretary to be planted on acreage designated as ACR under the annual production adjustment programs; and
4. Not utilize the 0/92 or 50/92 provisions of the annual price support and production adjustment programs.

So producers have the alternative of producing nonprogram crops on acreage that would otherwise be planted to spring wheat or feed grains. They can do that, but it is somewhat of a financial disadvantage because they will lose their deficiency payments on the acreage that is devoted to a nonprogram crop.

The Export Enhancement Program

QUESTION FROM SENATOR CONRAD NO. 68

Question. As you know, I have been concerned about the criteria for making awards under the Export Enhancement Program. I continue to be concerned about the high levels of stocks relative to usage of Hard Red Spring wheat, Durum wheat, and barley. I am also concerned about the record stockpiles of edible oils in the United States. Have you had the opportunity to look into the criteria by which awards are made? Is the United States considering any awards for Spring wheat, Durum, barley, or edible oils in the near future?

Answer. The Department is undertaking an internal evaluation of the objectives and criteria which have been used in carrying out this program. An effort is being made to get through this process as soon as possible. In the interim, the Department will continue to deal with EEP proposals individually. Timely initiatives are by no means precluded while we finish our evaluation of the program.

We are constantly entertaining bids under EEP initiatives already announced for the payment of bonuses with respect to sales and available to targeted countries.

The choice of when to bid under the program is entirely up to the domestic seller. Just in the past couple of weeks, bonuses were made available with respect to sales of 120,000 tons of Spring wheat for the USSR and 25,000 tons of barley for Tunisia. Bids for bonuses on sales of Durum to one or two EEP countries are expected soon.

Because of last year's drought in the Northern States, prices of Spring wheat, barley and Durum relative to grain from other parts of the country became higher than usual. Sales of these commodities this year have been below the previous year's level due to the relatively high premiums the buyers have had to pay. There are, for example, a number of approved barley initiatives for which no sales have been made. Nevertheless, with the improved 1989 Durum, Spring wheat and barley crop outlook there is good reason to expect that opportunities for sales with respect to which bonuses will be made available under EEP in the coming months will improve.

A proposal for an EEP initiative for vegetable oils to the Soviet Union is under review. No decision has been reached.

QUESTION FROM SENATOR CONRAD NO. 69

Question. What is the status of EEP at this time?

Answer. To date, under the Export Enhancement Program, bonuses of $2.5 billion have been made available with respect to export sales of more than $8.2 billion. We are continuing to look at EEP proposed initiatives on a day-to-day basis, keeping a close eye on the ever changing market conditions.

Status of GATT Negotiations

QUESTION FROM SENATOR CONRAD NO. 70

Question. Is the U.S. still pursuing the complete elimination of trade distorting support in the GATT along with "decoupled" farm programs? In other words, is our aim in the next 20 months in the GATT to go a "substantial" way toward this same goal?

Answer. Our fundamental objective for these negotiations has not changed. We are seeking a multilateral commitment to eliminate trade-distorting support and protection. The recent Mid-Term Agreement will help us to pursue this goal. We believe that it is difficult to "correct and prevent distortions" as this agreement calls for without eventually eliminating the policies that cause distortions. This does not mean that government support ends, only that support should be given in a non-trade distorting way. What constitutes a non-trade distorting support policy will be a subject of the negotiations

QUESTION FROM SENATOR CONRAD NO. 71

Question. Where do you realistically expect the EC to move during these negotiations? Given our projected budget cuts for agriculture along with the large number of acres we have removed from production, what incentive does the EC have to make concessions?

Answer. All countries have agreed to "substantial progressive reductions in agricultural support and protection . . . resulting in correcting and preventing restrictions and distortions in world agricultural markets." Moreover, the alternative—continuation and worsening of the current situation in world agricultural trade—should be ample motivation for any participant in the negotiations. EC leaders realize that something has to be done. Our job is to convince them that we are offering the best solution.

QUESTION FROM SENATOR CONRAD NO. 72

Question. Why were our important developing country competitors such as Argentina and Brazil excused from any actions in the short-term agreement?

Answer. The short-term freeze will only be in effect through 1990 and developing countries, in general, are not a major source of the current distortions in world agricultural trade. We do expect developing countries, which will clearly gain from long-term reform, to conform to the new rules and disciplines and long-term reform commitments which will be negotiated over the next 20 months.

QUESTION FROM SENATOR CONRAD NO. 73

Question. Now that we have agreed to only "substantially" reduce support in the GATT, are you considering additional policy options for a 1990 farm bill to deal with food security concerns in Europe, Asia, and the developing world? Would you consider an international food reserve plan and international coordination of supply management programs?

Answer. Our goals in the negotiations have not changed. We still seek the eventual elimination of all trade-distorting subsidies. The issue of food security has yet to be negotiated in the GATT. Therefore, we do not think it would be appropriate to suggest any food security-related provisions for U.S. farm legislation. Although we are not opposed to considering ideas on international food reserves, we feel that stocking policy is probably best left to the discretion of individual countries. However, we believe that mandatory supply management programs are not an appropriate instrument to address food security concerns.

QUESTION FROM SENATOR CONRAD NO. 74

Question. The EC exports not only its surpluses, but its weather related instability. As part of the GATT agreement, are you going to press the EC to hold stocks or control supply so they carry their share of the burden of stabilizing world markets?

Answer. Rather than directly controlling output through some agreed-upon supply control mechanism, we will press for all countries to eliminate trade-distorting measures, like export subsidies and production-based payments. Fundamental policy reform is the most effective way of reducing the distortions the EC causes in the world market.

QUESTION FROM SENATOR CONRAD NO. 75

Question. What kinds of changes in the 1990 farm bill would make economic sense and at the same time, put pressure on the EC if they aren't forthcoming in the GATT negotiations?

Answer. In order to be of help in the negotiations, the 1990 farm bill should continue programs that increase U.S. competitiveness in world markets and continue to make U.S. programs more market oriented. Those provisions of the 1985 farm bill which have had the greatest impact on U.S. competitiveness include lower price supports and target prices and various export programs.

QUESTION FROM SENATOR CONRAD NO. 76

Question. You say the 1990 farm bill will have to be "modified" after the agreement in Geneva is completed. Why can't we have a 1990 farm bill with enough flexibility in policy to cover all options—complete failure or full success in Geneva?

Answer. I would welcome flexibility in the 1990 farm bill. As a practical matter, however, it may be difficult to predict accurately enough the outcome of the negotiations so as to be able to provide in the legislation the proper provisions.

Responses to Senator Tom Harkin's Questions

QUESTION FROM SENATOR HARKIN NO. 77

Question. Please describe in detail the results of your analysis of the estimated effect on U.S. net farm income of (a) the short term GATT agreement reached in Geneva and (b) any further GATT agreements in accordance with the long term elements and guidelines for reform contained in the text agreed to in Geneva.

Answer. There will be little or no effect on U.S. net farm income of the short-term GATT agreement to freeze market access restrictions and administered prices. The freeze will not require us to do anything that was not already provided for in existing legislation. The effects of the long-term GATT agreement cannot be estimated until the details of the long-term reform program have been agreed upon.

QUESTION FROM SENATOR HARKIN NO. 78

Question. What does available economic analysis show regarding the expected effect of the short- and long-term elements, respectively, of the Geneva GATT Agreement upon the economic structure of U.S. agriculture, i.e., number of farms, size of farms, ownership of agricultural assets and capitalization of agricultural enterprises?

Answer. There are no expectations that the short-term freeze will effect the economic structure of U.S. agriculture. The effects of the long-term GATT agreement cannot be estimated until the details of the long-term reform program have been agreed upon.

Question From Senator Harkin No. 79

Question. Which countries are considered developing countries for purposes of exemptions from the GATT agreement reached in Geneva?

Answer. Developing countries are generally considered to include the countries in Latin America, Africa, and Asia (other than Japan and newly industrialized countries such as Korea and Singapore). All developing countries are exempted from the short-term commitments in this agreement. Nothing has been decided with respect to the long-term reform process.

Question. Are any of these countries major competitors of the United States?

Answer. Some developing countries do have sectors which compete on some level with certain agriculture sectors in the United States. We will work to ensure that developing countries, which will gain from long-term reform, adhere to new rules and disciplines that are negotiated, commensurate with their level of development as agreed to in the Punta del Este Declaration.

Question. Are Brazil and Argentina developing countries?

Answer. For the purposes of the short-term agreement, yes.

Question. What differences, if any, do you expect between the short- and long-term agreements as they pertain to developing countries?

Answer. As stated earlier, all developing countries are exempted from the short-term agreement. This agreement will only be in effect through 1990. We do expect developing countries, which will clearly gain from long-term reform, to conform to the new rules and disciplines which will be negotiated over the next 20 months. The level of their conformity will be commensurate with their level of development. This was agreed to in the Punta del Este Declaration.

Question From Senator Harkin No. 80

Question. What limitation does the agreement place on the United States' ability to reduce or increase the amount of land taken out of production through the CRP or other programs?

Answer. The Mid-Term Review Agreement does not put us under any specific obligation whatsoever with regard to the operation of our conservation and acreage reduction programs.

Question From Senator Harkin No. 81

Question. Have any other countries committed to reduction of their production in the way that the United States does under its acreage reduction programs?

Answer. No. The European Community has established a voluntary set-aside program that could take, at most, 1 million hectares out of production.

Question From Senator Harkin No. 82

Question. What effect will this agreement, or the long-term agreement, have on programs to aid agriculture such as research, extension, weather forecasting, etc.

Answer. This has yet to be negotiated. Our goal in the negotiations is the elimination of trade-distorting subsidies. Obviously, some government support programs for agriculture have a minimal effect on production and trade. Such measures are less likely to be targeted for elimination.

Question From Senator Harkin No. 83

Question. Is the U.S. bound by short-term agreement to allow imports at recent levels, even though those levels were affected by the unusual circumstance of a severe drought?

Answer. The short-term agreement forbids the increasing of import protection by countries except where existing legislation requires it. The agreement freezes the level of import protection, not the quantities imported.

QUESTION FROM SENATOR HARKIN NO. 84

Question. Has USDA done any analysis on the relationship of Federal water subsidies and Federal commodity program benefits insofar as they may constitute a double benefit if a producer receives both?

Please provide for the record any analysis that USDA has indicating the amount of commodity program benefits paid to producers who also benefit from Federal water subsidies?

If this analysis is not available, will USDA undertake such an analysis to determine the extent to which such double benefits are paid?

Answer. Enclosed are two USDA reports that analyze the relationships between the production of price and income supported crops and Federal water subsidies.

Agricultural Economic Report Number 592, *Surplus Crop Production and the Small Reclamation Projects Act,* examines the relationship between USDA commodity programs and irrigation subsidies in the Small Reclamation Projects Act (SRPA), administered by the Department of the Interior. The basic conclusion of the report is that the apparent conflict between the programs is minor. Only a relatively small percentage of program crops is produced on SRPA acreage. In 1985, deficiency payments for program crops in irrigation districts receiving SRPA loans amounted to $60 million, but only $8 million was attributable to production linked to SRPA acreage.

The second report, "Program Crop Production and Federal Irrigation Water," provides estimates for 1986 of Federal irrigation water subsidies and farm program payments to producers who irrigate program crops with water from the Interior Department's Bureau of Reclamation (BOR). Not all program-crop producers using BOR water participate in the commodity programs in any particular year, and not all BOR water to producers is subsidized. In 1986, commodity program payments to producers receiving water subsidies amounted to $379 million out of a total of $496 million received by all program-crop producers using BOR water. Also, commodity program participants received an estimated $66 million out of a total $85 million of irrigation water subsidies for all program-crop production.

Annual commodity program payments vary significantly and ranged from 0 in 1980 to $546 million in 1983 for producers using BOR water. Irrigation water subsidies, based on long-term contracts, do not fluctuate nearly as much.

USDA's Economic Research Service will continue to analyze the situation regarding farm commodity programs and Federal water subsidies.

[The USDA reports that analyze the relationships between the production of price and income supported crops and Federal water subsidies follow:]

SURPLUS CROP PRODUCTION AND THE SMALL RECLAMATION PROJECT ACT

(By Donald H. Negri, Michael R. Moore, C. Edwin Young, Larry J. Schluntz, Dick L. Porter, and Ronald M. Willhite. Resources and Technology Division, Economic Research Service, U.S. Department of Agriculture. Agricultural Economic Report No. 592.)

ABSTRACT

The U.S. Department of the Interior's Small Reclamation Projects Act (SRPA) program, by providing aid to improve existing irrigation systems, can increase irrigated acreage and crop production. The U.S. Department of Agriculture's commodity programs concurrently use target prices and acreage restrictions to cut production of surplus crops, namely corn, sorghum, oats, barley, wheat, rice, and Upland cotton. This report reviews the links between SRPA loans and surplus crop production, and associated commodity program costs. The apparent conflict between the two programs is minor. A small percentage of USDA commodity program expenditures can be attributed to SRPA loans, and SRPA acres produce a small portion of USDA surplus crops.

Keywords: Irrigation, production, program costs, Small Reclamation Projects Act (SRPA), and surplus crops.

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PREFACE

This report results from a joint study by the U.S. Department of Agriculture (USDA) and the U.S. Department of the Interior. Section 311 of Public Law 99-456 requires that the Secretary of Agriculture and the Secretary of the Interior review the effects of the Small Reclamation Projects Act of 1956, Public Law 84-984, as amended, on the operation and objectives of USDA programs dealing with the production of surplus commodities. This report was prepared to satisfy that requirement. Regional offices of the Bureau of Reclamation, Department of the Interior, collected the data on the small reclamation projects for this study.

ACKNOWLEDGMENTS

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GLOSSARY

Deficiency payment. Government payment made to farmers who participate in feed grain, wheat, rice, or cotton programs. The payment rate is per bushel, bale, pound, or hundredweight and is based on the difference between a target price and the higher of either the market price or the loan rate.

Loan rate. The dollar amount per unit (bushel, bale, pound, or hundredweight) at which the Commodity Credit Corporation (CCC) will provide loans to farmers.

Market price. The weighted average price received by farmers during a specific period.

Nonrecourse loan. Eligible producers may obtain a loan from the CCC by pledging stored crops as collateral. These loans enable farmers to hold their crops for later sale. The producer can settle the loan by turning the stored commodity over to the Government. The Government has no recourse but to accept the commodity as complete settlement for the loan.

Target price. A unit value established by law for wheat, feed grains, rice, and cotton, which is used to calculate income-supporting deficiency payments.

CONTENTS

Summary
Introduction
SRPA Program Description
CCC Commodity Programs
The SRPA Influence on Crop Production and CCC Commodity Program Costs
  Conceptual Effects of SRPA on Crop Production and Composition
  Method for Estimating SRPA Effects on Surplus Commodity Program Expenditures
  Crop Production on Land Served by SRPA-Financed Projects
  CCC Program Crop Expenditures in SRPA Irrigation Districts
Case Studies
References

SUMMARY

The apparent conflict between two Federal programs affecting agriculture—one encouraging production and the other restricting production—is in fact minor.

The U.S. Department of the Interior's Small Reclamation Projects Act (SRPA), by providing aid to improve existing irrigation systems, can increase irrigated acreage

and crop production. The U.S. Department of Agriculture's (USDA) commodity programs aim to reduce production through target prices, price support loans, and acreage restrictions for seven surplus crops. A small percentage of USDA commodity program expenditures can be attributed to SRPA loans, and SRPA acres produce a small percentage of USDA program crops.

This report reviews the links between SRPA loans and surplus crop production, and USDA commodity program costs associated with that production.

Through 1987, 75 small reclamation projects have been completed, 18 projects are under construction, and 11 loan applications for projects are being considered. The estimated annual Federal cost for providing interest-subsidized SRPA loans was $12 million in 1984, declining to about $11 million annually between 1986 and 1990 for the SRPA projects completed by 1985.

Between 1975 and 1985, SRPA production declined for five of the seven USDA program crops: corn, sorghum, oats, barley, and wheat. Compared with national production, SRPA irrigation districts devoted larger shares of their acreage to nonprogram crops such as fruits, nuts, vegetables, and seeds, and to the remaining two USDA program crops, rice and Upland cotton.

In 1985, USDA deficiency payments for the production of program crops in irrigation districts receiving SRPA loans were $60 million, of which only about $8 million came from production linked to SRPA. A few large districts dominate the estimates of SRPA-linked program costs, production, and irrigated acreage. These districts also received large irrigation loans, indicating that large loans correlate with increased irrigated acreage. In projects completed by 1985, irrigated acreage expanded in seven of the nine districts receiving loans in excess of $5 million. In these districts, acreage expanded 24 percent after the date of loan application, compared with an average of 8 percent in all districts receiving loans.

SURPLUS CROP PRODUCTION AND THE SMALL RECLAMATION PROJECTS ACT

(Donald H. Negri, * Michael R. Moore, C. Edwin Young, Larry J. Schluntz, Dick L. Porter, and Ronald M. Willhite)

INTRODUCTION

This study explores the apparent conflict between U.S. Department of Agriculture commodity programs and subsidies for irrigation provided by the U.S. Department of the Interior's Small Reclamation Projects Act (SRPA). The SRPA subsidizes the costs and increases the availability of farm irrigation water. Thus, the SRPA may encourage farmers to grow crops, some of which are in surplus. USDA commodity programs use target prices and acreage restrictions to cut production of surplus crops.

Consistency between Federal programs is an important consideration when designing legislation, especially in this era of high deficits and tight budgets. Fox, Moore, and Stults examined the apparent conflict of goals between the Federal reclamation program and commodity programs, and concluded that: "reclamation programs emphasize, among other objectives, maintaining and expanding agricultural capacity over time," while "commodity programs emphasize short-term price and income levels and stability" (*1*) [1]

The apparent conflicts among the objectives of U.S. Department of Agriculture (USDA) commodity programs and soil conservation programs were debated in the early 1980's. Studies by Reichelderfer and by Osteen identified the incentives to expand production of somewhat erosive crops created by USDA price and income support programs, while other USDA programs subsidized implementation of soil conservation practices (*2, 3*). The 1985 Food Security Act, through the conservation title, attempts to reconcile the inconsistencies in these programs.

This report estimates the share of USDA commodity program production within several irrigation districts that results from the SRPA program. Only a small percentage of USDA commodity program expenditures go to SRPA projects, indicating little actual inconsistency between the two programs.

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[1] Italic numbers in parentheses refer to literature cited in the References section.

SRPA PROGRAM DESCRIPTION

Constructing and operating small irrigation and reclamation projects is a part of water resources development that often can be performed by local agencies to their own and the Federal Government's benefit. The SRPA was enacted on August 6, 1956, to encourage local participation in the development and rehabilitation of small reclamation projects. SRPA provides Federal assistance to those projects and requires that an organization applying for a loan submit a proposal to the Secretary of the Interior. The proposal "shall set forth, among other things, a plan and estimated cost in detail comparable to those included in preauthorization reports required for a Federal reclamation project."

The Bureau of Reclamation, U.S. Department of the Interior, processes all SRPA loan applications and proposals. The Bureau provides advice during preparation of the required loan application report, examines the stated feasibility to determine whether the project can reasonably be expected to accomplish its purpose, and decides whether the loan can be repaid as proposed. Also, the Bureau reviews plans and inspects the project when necessary, both during construction and throughout the loan repayment period, to verify that the project is built and managed according to the contractual agreements.

Key provisions of the SRPA legislation permit simplified planning, review, and authorizing procedures, and require that the local sponsor construct and operate the project. The local sponsor makes key decisions within the Federal guidelines developed for the program.

A small reclamation project must include commercial irrigation as a primary purpose. However, projects may be multipurpose, including municipal and industrial (M&I) water supply, commercial hydroelectric power, flood control, fish and wildlife enhancement, or outdoor recreation. Recent legislation gives special emphasis to rehabilitating and improving existing projects.

Interest-free Federal loans are available for financing irrigation facilities, and interest-bearing loans can be acquired for the M&I water supply and power purposes. Loans must be repaid within 40 years and generally require 25 percent local (upfront) contribution to qualify. Grants may be made for part of the flood control, outdoor recreation, and fish and wildlife enhancement purposes when they are of general public benefit.

Small reclamation projects originally were limited to those requiring $10 million or less, with the sum of loans and grants limited to $5 million. For 1987, the estimated maximum allowable project cost was $42.1 million, and the allowable sum of loans and grants was limited to $28.1 million, or two-thirds of the maximum allowable project cost. In addition to these individual project cost limitations, Congress also imposed a $1.2 billion Federal appropriation ceiling for carrying out provisions of the program.

Since the program's inception in 1956, 104 projects have been either completed, are pending approval, or have applications (reports) under consideration. These projects required a total Federal contribution (loans and grants) of about $736 million, a local contribution of about $222 million, and a total project cost of almost $960 million. Local applicants' upfront contributions have averaged 23 percent for the 103 projects formulated since 1956. This results in an average Federal obligation of 77 percent. The average loan repayment period has been 38 years. Table 1 describes the status of the SRPA program as of April 1, 1987. The analysis presented later in the report is based on projects completed through 1985. In addition to the projects listed in table 1, 25 Notices of Intent from applicants represent projects in the planning stage and, potentially, more than $345 million in Federal appropriations.

The subsidy associated with the interest-free and interest-subsidized loans is an important aspect of the SRPA evaluation. In effect, loans with below-market-level interest rates create a Federal expenditure: the Government lends interest-free while paying interest on the money it borrows. In the mid-1970's, the Secretary of the Interior placed a ceiling on the interest subsidy on a loan. The ceiling, called the "loan factor," requires that the ratio of the interest subsidy to the loan principal be less than 50 percent. For example, on a $20,000 loan made in 1987, the present discounted value (PDV) of the series of loan repayments cannot be less than $10,000.

The loan factor requirement has contributed to a shift in the structure of the loans being made and the nature of the districts that receive them. Since the early 1980's, the applicants' upfront share of costs have increased from an average of 23 percent to an average of 27 percent. The average loan repayment period for recently completed projects has decreased to 30 years, from the overall average of 38 years. In addition, the bulk of loan applications shifted from single-purpose irrigation projects to multipurpose projects. Of the 20 projects reviewed in the 1980's, for example, only 5 were solely irrigation projects. Loans for multipurpose projects typically contain interest-bearing components in the municipal and industrial portions of the projects.

The Federal Government incurs nonreimbursable costs in the form of interest subsidies because the Government makes interest-free SRPA loans while borrowing at an interest rate. The 1985 cost to the Government from the interest-subsidized loans, calculated at a 7.5-percent interest rate, was $12 million. As the loan principal is repaid, the projected costs from these loans decline to around $11 million per year between 1986 and 1990. These figures are based on projects completed by 1985. As other projects are approved and completed, the nonreimbursable costs will increase. Table 1 indicates future nonreimbursable costs. Total Federal appropriations for the projects under construction in 1987 were $284.6 million, while appropriations for construction completed were $270.2 million. Only the latter included in the calculations of the annual cost of the interest-subsidized loans.

TABLE 1.—SRPA PROJECT COSTS AND APPLICANT CONTRIBUTIONS BY PROJECT STATUS, APRIL 1987

Project status	Projects [1] (number)	Federal appropriations (loans/grants) [2]	Applicant contributions [2]	Total project costs [2]
Construction completed	76	$270.2	$60.3	$330.5
Under construction	21	284.6	70.8	355.4
Applications under consideration	12	181.0	90.7	271.7
Total	109	735.8	221.8	957.6

[1] Some SRPA irrigation districts receive more than one SRPA loan.
[2] Dollars in millions.

CCC COMMODITY PROGRAMS

The Secretary of Agriculture administers a comprehensive framework of target prices, price support loans, and acreage restrictions for specified crops. The program crops discussed in this report are wheat, oats, Upland cotton, rice, corn, barley, and sorghum. In addition, a farmer-owned grain reserve exists for wheat and feed grains. The goals of these commodity programs are stabilizing farm income and gradually reducing farm surpluses through reduced production and expanded trade. The general framework of current commodity programs is authorized in accordance with provisions of the Agricultural Act of 1949, as amended by the Food Security Act of 1985.

Annual expenditures by the Federal Government for farm commodity programs may come in three primary forms:

(1) *Expenditures associated with price and income supports.* The Government price support loan program guarantees participating farmers a price level (a target price) per unit of production. By pledging a quantity of commodity as collateral, farmers obtain loans from the CCC at an interest rate generally at or below the market-level interest rate. Loans are made at a fixed rate per unit of the commodity. At harvest time, if market prices are above the guaranteed price level, farmers may sell their commodities at the higher value and repay the loan, thus realizing a profit. If market prices are lower, the CCC acquires stocks when commodity producers with outstanding loans forfeit their loan collateral rather than repay the loans. These loans are known as nonrecourse loans. Commodity producers generally will forfeit loan collateral to the CCC when the loan rate exceeds the market price. Compliance with acreage restrictions and other program requirements qualifies a commodity producer for price support loans and other benefits. Government expenditures for income support to farmers participating in commodity programs are known as deficiency payments. Deficiency payments and storage costs represent the bulk of total USDA program costs.

(2) *Payments for land diversion (PLD's) that induce an additional reduction of planted acreage beyond that required to qualify for price and income supports.* To encourage further acreage reduction, the CCC provides payments for diverting additional land from production. These PLD's are calculated by multiplying the diversion payment rate for a particular crop by the quantity of acreage idled times the producer's established yield for the crop. A farmer with highly erodible land must

establish an approved conservation plan for use on the farm through 1990 and must begin the conservation plan to be eligible for commodity program benefits.

(3) *Costs associated with storing surplus commodities.* Once acquired or purchased by the CCC, the commodities must be placed in storage. CCC storage costs represent the third major category of Federal expenditures in CCC commodity programs.

The 1985 Act includes provisions aimed at increasing the world competitiveness of Upland cotton and rice by using marketing loans and negotiable marketing certificates. The marketing loan provisions allow commodity producers to repay their loans at a level below the initial loan rate whenever the world market price for rice or Upland cotton falls below the loan rate. A negotiable marketing certificate may be issued to commodity producers in an amount equal to the difference between the repayment rate and the world market price to enhance the competitiveness of these commodities. These provisions encourage producers to sell their rice and Upland cotton in the world market rather than forfeit their crops to the CCC.

The 1949 Act also contains provisions for a milk price support program. The CCC buys surplus dairy products to maintain the market price for milk at the price support level. Because forage is an input into milk production, increased forage production may stimulate milk production. This could increase CCC purchases of dairy products. Irrigated forage, consequently, is another commodity that is important for the evaluation of CCC program crop production attributable to SRPA loans.

Specific aspects of the commodity programs are designed for each crop. Yet, a majority of the programs have in common the three categories of Federal costs. This report links these costs to the specific crop production made possible by SRPA loans.

The SRPA Influence on Crop Production and CCC Commodity Program Costs

When analyzing the SRPA influence on crop production and CCC commodity program costs, we considered the conceptual effects, the estimation methods, and the actual crop production and CCC expenditures on lands benefiting from SRPA loans.

Conceptual Effects of SRPA on Crop Production and Composition

Agricultural production and its composition depend on the current and anticipated economic conditions of input markets (including farm labor, chemicals, energy, and water), output commodity markets (such as commodity prices), and nonmarket phenomena (such as climate and water yield). Changes in any of these conditions affect the level and composition of both the inputs used for production and the production itself. For example, an increase in the price of energy is likely to alter the input composition toward less energy-intensive production methods and to increase the production methods and to increase the production of less energy-intensive crops. The increased production of less energy-intensive crops will, in turn, affect the prices of agricultural commodities. For instance, if corn prices rise above other commodity prices, corn production will also rise. In an environment in which the economic and noneconomic conditions are continuously changing, assessing the effect of a single-factor change on the agricultural sector can be difficult.

The SRPA subsidizes the cost and potentially increases the availability of one factor of production, irrigation water, for irrigation districts that obtain SRPA project loans. The SRPA can affect surplus crop production and CCC program expenditures by inducing changes in crop mix, expanding irrigated acreage, and/or increasing yield on existing acres. In an ideal situation, program costs attributable to SRPA are precisely those portions of production directly linked to the project loan. But the cost and availability of irrigation water may not be the most important determinants of production. Production changes after an irrigation project has been completed are not always directly attributable to that project facility or to rehabilitation financed by the loan. Factors such as commodity prices, climate, urbanization, and input prices other than water also determine the level and composition of production. Surplus commodity programs are a significant determinant of production. The combined effect of these factors potentially dominates the effect of the irrigation loan. Whether the SRPA increases or decreases program crop expenditures cannot be predicted a priori. For example, when an SRPA project increases irrigated acreage, the project may also induce a shift in crop composition away from surplus crops, causing commodity program expenditures to drop. An increase in the irrigation water supply may induce farmers to expand irrigated acreage and to shift production to higher value, nonprogram crops such as fruits, nuts, and vegetables.

Method for Estimating SRPA Effects on Surplus Commodity Program Expenditures

This section describes the methodology for assessing the effects of SRPA loans on crop production, crop composition, and surplus crop program costs. Specific questions are: (1) What percentage of production within an irrigation district can be attributed to the SRPA project? (2) What are the current and projected program crop costs associated with the SRPA? (3) How does the SRPA project influence the level and composition of production in the districts over time?

Since the irrigation districts receiving SRPA loans had land in irrigated rotation at the time of loan application, not all of the production in these districts can be linked to the irrigation project.[2] Each of these districts presumably would continue to produce nonprogram and program crops in the absence of an SRPA project loan. Some districts may finance the irrigation project through the private capital market. To isolate the influence of an SRPA loan, the expenditure estimates use acreage increases in irrigated rotation since the date of the loan as a proxy for increased crop production due to the SRPA loan. For completed projects, we assume that all irrigated acreage increases since the date of the loan application result directly from the SRPA irrigation project. Thus, the share of total production attributable to an SRPA project equals the share of 1985 acres in irrigated rotation that have been added since the loan application. For example, suppose that 1,000 irrigable acres were added to a district serving 19,000 acres at the date of the SRPA loan application. These acres could have been added any time after the loan application but prior to 1985. The share of the output from the district's irrigated acreage that is attributable to the SRPA project would be 5 percent, or 1,000 divided by the new total of 20,000. The estimate assumes that the crop distribution on the incremental acreage is identical to the existing crop distribution within the entire district.

For the 67 projects completed by 1985, 1,091,895 acres were in irrigated rotation in these districts at the time of the project applications. In the interval from the date of loan application to 1985, land in irrigated rotation in the 67 completed projects increased 97,943 net acres, or 8.1 percent. This percentage represents incremental commodity production attributable to the SRPA.

The importance of factors other than the SRPA was evident in the overall percentage, as results varied substantially across projects. Despite the 8.1-percent overall increase in acreage in irrigated rotation in 1985, acreage in irrigated rotation on 32 of the projects declined since the date of the loan application. Thirty-three projects increased acreage and two remained unchanged. In those projects where the irrigated acreage declined, the analysis does not attribute any of the irrigation project's crop production to the SRPA. Decreases in irrigated acreage are assumed to result from other determinants of production including urbanization and, therefore, are not attributable to the SRPA.

Projections of the production attributable to the SRPA focus on changes in irrigated acreage and do not extrapolate the trends in crop composition. Determinants of crop composition other than the SRPA are assumed to dominate crop selections. Moreover, this procedure does not necessarily overstate the contribution of the SRPA. For example, an irrigation project loan may expand irrigated acreage, while other factors, such as urbanization, simultaneously may eliminate some irrigated acreage. Thus, the estimate of the district production attributable to the SRPA may be understated.

Crop Production on Land Served by SRPA-Financed Projects

To assess the contribution of irrigation districts with SRPA loans to U.S. crop acreage in 1985, we compared both program and nonprogram crop acreage in these irrigation districts with national averages (table 2).

TABLE 2.—HARVESTED ACREAGE IN 1985 BY CROP FOR THE UNITED STATES AND FOR SRPA IRRIGATION DISTRICTS

Crop	U.S. harvested acreage (1,000 acres)	National average land use (percent)	Land use in irrigation districts with SRPA loans (1,000 acres)	Percentage of total SRPA acreage used	Land use in SRPA districts as a percentage of national average land use
Corn for grain	75,224.0	18.7	112.1	11.0	0.15
Sorghum for grain	16,782.0	4.2	11.5	1.1	.07
Oats	8,177.0	2.0	7.1	.7	.09
Barley	11,603.0	2.9	45.7	4.5	.39

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[2] Land in irrigated rotation measures acreage for which irrigation works have been constructed and project water is available. This land exceeds irrigated acreage in any one year.

TABLE 2.—HARVESTED ACREAGE IN 1985 BY CROP FOR THE UNITED STATES AND FOR SRPA IRRIGATION DISTRICTS—Continued

Crop	U.S. harvested acreage (1,000 acres)	National average land use (percent)	Land use in irrigation districts with SRPA loans (1,000 acres)	Percentage of total SRPA acreage used	Land use in SRPA districts as a percentage of national average land use
Wheat	64,734.0	16.1	58.8	5.8	.09
Rice	2,494.0	.6	108.5	10.7	4.35
Upland cotton	10,229.0	2.5	80.6	7.9	.79
Other cereals	717.0	.2	3.3	.3	.46
Forage [1]	133,145.0	33.0	324.2	31.9	2.43
Miscellaneous crops	70,671.0	17.5	65.6	6.4	.09
Vegetables	4,024.0	1.0	71.8	7.1	1.78
Nursery [2]	NA	NA	3.3	.3	NA
Seeds [3]	1,446.9	.4	17.5	1.7	1.20
Fruits	2,837.1	.7	57.3	5.6	2.02
Nuts	655.8	.2	46.0	4.5	7.01
Family gardens	NA	NA	4.1	.4	NA
Total	402,739.9	100.0	1.017.4	99.9	NA

[1] The U.S. forage total includes cropland pasture from the 1982 Census of Agriculture.

[2] Acreage values for nurseries and family gardens are not available for the United States, but are assumed to be small and to have little effect on the percentage distribution.

[3] The U.S. seed acreage is for 1980, the last year for which data were available

NA.—Not applicable.

Description of Status

Seven program crops (corn, sorghum, oats, barley, wheat, rice, and Upland cotton) are grown on irrigated acreage in the West, the primary domain of the SRPA. Acreage devoted to these crops in 1985 accounted for 41.7 percent of total acreage on land with SRPA projects completed by that year. U.S. acreage devoted to the same crops was 47 percent. Yields on irrigated land, however, were significantly higher. A smaller share of irrigated land in SRPA irrigation districts is devoted to program crops compared with the national average. Although this holds true for the program crops as a group, acreage devoted to barley, rice, and upland cotton in SRPA irrigation districts exceeds the national averages.

The use of SRPA acreage is somewhat skewed toward the production of nonprogram crops. In particular, high-value crops, such as vegetables, seeds, nuts, and fruits, are produced at rates higher than the national average. The prevalence of SRPA loans in the high-value agricultural production regions of California is a major factor.

Trends in Crop Production and Acreage Since 1975

Table 3 describes the trend in CCC program crop production in irrigation districts receiving SRPA loans. The table reports total district production, only a portion of which can be attributed to SRPA projects. The data are limited to the 32 projects that were finished by 1975 in order to develop trends at three time points (1975, 1980, and 1985). The trends are rough indicators of future production patterns. The table does not imply a causal relationship between the trend and the loan program. Rather, it provides some perspective on possible future CCC commitments and program expenditures.

TABLE 3.—PERCENTAGE OF NATIONAL PRODUCTION OF CCC PROGRAM CROPS IN IRRIGATION DISTRICTS RECEIVING SRPA LOANS, SELECTED YEARS [1]

Crop	1975	1980	1985
Corn	0.01	0.02	0.02
Sorghum	.40	.17	.05
Oats	.05	.07	.01
Barley	.60	.42	.31
Wheat	.13	.13	.12

TABLE 3.—PERCENTAGE OF NATIONAL PRODUCTION OF CCC PROGRAM CROPS IN IRRIGATION DISTRICTS RECEIVING SRPA LOANS, SELECTED YEARS [1]—Continued

Crop	1975	1980	1985
Rice	5.41	5.32	4.91
Upland cotton	.51	.92	.66

[1] The SRPA projects, the production data of which contribute to the table, were completed by 1975. This permits the development of a trend at three points in time, incorporating data from 32 of the 67 projects completed by 1985.

With the possible exception of rice, the percentages in the table are small. Therefore, total production of program crops in SRPA irrigation districts will not affect commodity prices in general. The potential effect of rice production on price is discussed later in this report. Although not affecting commodity prices, program crop production does affect CCC program crop expenditures. Doubling the percentage of national corn production between 1975 and 1980, for example, doubles the corn deficiency payments to these irrigation districts.

Sorghum, barley, wheat, and rice production in the irrigation districts fell throughout the 10-year period, compared with national production totals. In irrigation districts, corn production doubled by 1980 and remained constant through 1985. Oat production also increased by 1980, yet showed a large net reduction by 1985. Upland cotton production increased by 1980, almost doubling in percentage terms, but declined toward its 1975 base by 1985. Table 4 illustrates some of the changes in cropping patterns since 1975. The trends between the SRPA irrigation districts and the national totals run opposite to each other for sorghum, oats, and wheat production, with sorghum acreage decreasing, oats acreage increasing, and wheat acreage increasing in the districts while decreasing at the national level. The acreage in total program crop production also follows this pattern, declining between 1980 and 1985 in the districts, while showing a long-term increase for the U.S. total.

TABLE 4.—PERCENTAGE OF ACREAGE DEVOTED TO CCC PROGRAM CROP PRODUCTION: SRPA IRRIGATION DISTRICTS VERSUS U.S. TOTAL, SELECTED YEARS [1] [2]

Item	1975	1980	1985
Corn:			
SRPA	1.06	1.90	3.11
United States	16.30	17.70	18.70
Sorghum:			
SRPA	5.96	1.53	.97
United States	3.70	3.00	4.20
Oats:			
SRPA	.62	.69	.89
United States	3.10	2.10	2.00
Barley:			
SRPA	4.37	2.85	3.67
United States	2.10	1.80	2.90
Wheat:			
SRPA	4.37	5.39	5.74
United States	16.70	17.20	16.10
Rice:			
SRPA	15.30	18.40	16.00
United States	.70	.80	.60
Upland cotton:			
SRPA	2.96	8.79	7.13
United States	2.10	3.20	2.50
All program crops:			
SRPA	35.00	39.50	37.50
United States	44.70	45.70	47.00
All nonprogram crops:			
SRPA	65.00	60.50	62.50
United States	55.30	54.30	53.00

[1] The SRPA projects, the production data of which contribute to the table, were those completed by 1975. This permits development of a trend at three points in time, incorporating data for the percentage of harvested acres within SRPA irrigation districts devoted to the specific crop.

[2] U.S. data represent national acreage.

CCC Program Crop Expenditures in SRPA Irrigation Districts

Deficiency expenditures represent payments at the target price. The deficiency payment rate was calculated as target price minus loan rate for all of the program crops. The deficiency payment rate is multiplied by production to estimate deficiency payment expenditures. Diversion payments and disaster payments are not included in the calculation since irrigators typically do not participate in these programs.

Description of Status

Total 1985 deficiency payment expenditures in the 67 irrigation districts with completed projects amounted to $59.7 million. Rice and Upland cotton production assumed 45 and 30 percent of total expenditures. CCC program crop production, estimated production attributable to SRPA, and the associated deficiency payment expenditures for 1985 are presented in table 5.

[Table 5 follows:]

Table 5—1985 surplus crop production and costs for SRPA irrigation districts 1/

Item	National production 2/	Production attributable to SRPA 3/ 4/	Deficiency payment rate	Total deficiency expenditures in SRPA districts 5/ 6/	Deficiency expenditures attributable to SRPA 7/	1985 national deficiency expenditures	Percentage of national deficiency expenditures attributable to SRPA
	——1,000——		$/Unit	——$1,000——		$ million	Percent
Corn (bu)	14,505.3 (0.16)	1,192 (0.01)	0.48	6,963 (11.7)	572 (7.0)	2,470	0.02
Sorghum (bu)	922.9 (.08)	26 (*)	.82	757 (1.3)	21 (.3)	225	.01
Wheat (bu)	4,594.5 (.19)	659 (.02)	1.08	4,962 (8.3)	712 (8.6)	1,508	.05
Barley (bu)	3,616.7 (.61)	375 (.06)	.52	1,879 (3.1)	195 (2.4)	159	.12
Oats (bu)	526.9 (.10)	40 (*)	.45	237 (0.4)	18 (.2)	8	.23
Rice (cwt)	6,852.8 (5.1)	1,596 (1.2)	3.9	26,726 (44.7)	6,226 (75.1)	374	1.66
Upland cotton (bales)	160.1 (1.2)	5 (.04)	113.76	18,211 (30.5)	548 (6.6)	860	.06
Total	8/	8/	8/	59,735	8,292	5,604	.15

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* = Negligible.

1/ Data are for the 67 SRPA projects completed by 1985.

2/ Numbers in parentheses in this column represent the percentage of national production in 1985 that is grown on SRPA irrigation districts.

3/ Estimates of production attributable to the SRPA are obtained by assuming that increases in irrigated acreage in the interval between the date of the SRPA loan application and 1985 result from the SRPA loan. Refer to Section 4 for a complete description of the procedure.

4/ Numbers in parentheses in this column represent the percentage of national production in 1985 that is attributable to the SRPA.

5/ 1985 deficiency expenditures represent payments at the target price. The deficiency payment rate in 1985 was calculated as target price minus loan rate for all of the program crops. The deficiency payment rate is multiplied by production to estimate deficiency payment expenditures. Storage costs estimates are discussed later in this report. Diversion payments and disaster payments are not included in the calculation since irrigators typically do not participate in these programs.

6/ Numbers in parentheses in this column represent the percentage of the SRPA irrigation districts' total deficiency expenditures for each crop.

7/ Numbers in parentheses in this column represent the percentage of total deficiency payment expenditures for each crop that is attributable to the SRPA.

8/ Not able to compute due to variety of unit sizes.

To estimate the program costs attributable to the SRPA loans, we adjusted downward the total deficiency payment expenditures to reflect surplus crop production attributable to the SRPA. For 1985, irrigation districts' estimated surplus crop expenditures attributable to the SRPA totaled $8 million, compared with 1985 national deficiency payment expenditures of $5.6 billion by the CCC. The national total included the CCC's storage costs that originated in the CCC price support program and was associated with the crops attributable to the SRPA. We used the national average figures listed above to estimate that total SRPA crop storage costs in 1985 were $177,606. The total storage costs estimate rises to $786,745 if all of the SRPA crops are stored. Rice accounted for 75 percent of the estimated expenditures, and nearly all of this rice was produced in two irrigation districts in California (Glen Colusa and South Sutter). These districts and other large districts that dominate the estimated program costs are examined later in this report.

Expenditure Estimates for 1986-90

Estimates of CCC expenditures for program crops grown in SRPA irrigation districts and attributable to SRPA loans are presented in table 6 for 1986-90. Table 7 presents data on the national average CCC expenditure rates for program crops. These are the rates used in computing the CCC expenditure estimates. The expenditure estimates include CCC annual expenditures for deficiency payments, marketing loan costs, nonrecourse loans and purchases, and CCC storage expenditures for 1986-90. The 1986 present value of the 5 years of payments is $52 million, or $12 million per year, on average. Expenditures for the rice program again constitute a majority of the cost, with more than $31 million, or 60 percent of the total. Program crop expenditures attributable to the SRPA may not end in 1990, but may continue through the useful life of the investment or until crop prices exceed target levels. The estimates end in 1990 because the 1985 Act authorizes deficiency payments through 1990 only.

Table 6—Estimated expenditures attributable to SRPA loans on CCC program crops in SRPA irrigation districts, 1986-90 1/

Crop	1986 2/	1987	1988	1989	1990	PDV 3/ 1986-90	Undiscounted sum 1986-90
				$1,000 4/			
Corn	982 (7)	1,129 (8)	1,056 (8)	884 (9)	614 (8)	4,085 (8)	4,664 (8)
Sorghum	533 (4)	568 (4)	600 (5)	466 (5)	280 (3)	2,149 (4)	2,447 (4)
Wheat	1,265 (9)	943 (7)	798 (6)	583 (6)	383 (5)	3,567 (7)	3,973 (7)
Barley	345 (2)	448 (3)	419 (3)	402 (4)	333 (4)	1,683 (3)	1,947 (3)
Oats	7 (0)	6 (0)	5 (0)	2 (0)	0 (0)	18 (0)	19 (0)
Rice	8,083 (55)	8,131 (60)	7,954 (61)	6,489 (65)	5,587 (69)	31,688 (60)	36,243 (61)
Upland cotton	3,588 (24)	2,413 (18)	2,217 (17)	1,177 (12)	862 (11)	9,291 (18)	10,256 (17)
Total	14,803	13,638	13,049	10,003	8,059	52,481	59,549

1/ CCC program expenditures represent the average rate of Federal expenditures per unit of production.

2/ Numbers in parentheses are percentages of the total expenditures on deficiency payments, marketing loan costs, nonrecourse loan and purchase expenditures, and crop storage costs. Numbers may not add to 100 percent due to rounding.

3/ PDV measures the present discounted value in 1986 of the sum of the program expenditures for 1986-90, using an 8-percent discount rate.

4/ 1985 dollars.

TABLE 7.—PROJECTED AVERAGE RATE OF FEDERAL EXPENDITURES PER UNIT OF PRODUCTION BY CROP, 1986-90 [1]

Crop and units	1986	1987	1988	1989	1990
Corn ($/bu)	0.80	0.92	0.86	0.72	0.50
Sorghum ($/bu)	1.20	1.28	1.35	1.05	.63
Wheat ($/bu)	1.65	1.23	1.04	.76	.50
Barley ($/bu)	.60	.78	.73	.70	.58
Oats [2] ($/bu)	.08	.06	.05	.02	0
Rice ($/cwt)	5.02	5.05	4.94	4.03	3.47
Upland cotton ($/bale)	262.57	176.55	162.25	86.12	63.08

[1] Includes deficiency payments, net costs of marketing loans, net costs of nonrecourse loans and purchases, and storage costs per unit of total production rather than per unit of production on farms participating in CCC commodity programs.

[2] Estimates for oats made in early 1986.

Source: Office of Budget and Program Analysis, USDA. *Mid-Session Review of President's FY 1987 Budget,* July 1986.

The projections are grounded in several assumptions: (1) The projections of costs are based on production that is attributable to the SRPA (the figures for district irrigation production are reduced by the adjustment factor). (2) The trends in crop production are not used during the projection period. Production levels and crop composition in 1985 are assumed to extend to 1990. (3) Production estimates of the 28 SRPA projects under construction in 1985 are included in the calculations beginning in 1986 (the estimates assume that the new projects increase acreage in the same proportion as the net increase in the 67 projects completed by 1985, or 8.1 percent, and that the cropping pattern remains unchanged). (4) The deficiency payment, marketing loan costs, nonrecourse loan and purchase expenditures, and crop storage rates used in the calculation of program expenditures are unaffected by the crop production attributable to the SRPA. (5) The estimates assume that eligible SRPA producers participate in the commodity programs at the same rate as the national average participation rates.

Additional CCC costs arise from the link between irrigated forage and the Federal milk program. Because forage is an input into milk production, increases in irrigated forage production conceivably increase the production of dairy products. Increased forage production attributable to the SRPA may stimulate milk production through lower feed prices. Because forage markets tend to be regional, the SRPA may have small but perceptible effects on regional forage prices. Quantifying the effect of the SRPA on milk program costs is difficult because of the alternative uses of forage (other than for dairy production) and the regional nature of the markets.

In 1985, SRPA irrigation districts devoted 324,000 acres to irrigated forage production. Sixteen percent of those acres are attributable to the SRPA, using the adjustment factor described earlier. A single irrigation district, Walker River in Nevada, contributed 40 percent of the forage acreage attributable to the SRPA.

Changes in Commodity Prices as a Result of SRPA

The percentage of national production attributable to the SRPA is small for all program crops except rice (table 5). Without the SRPA, national rice production would decline an estimated 1.2 percent. This is sufficient to cause a change in the market price of rice.

An estimate of the price effect of the SRPA involves a simple calculation. The shortrun domestic price elasticity of demand for rice, reflecting the relationship between domestic use and price, is −0.2. The price elasticity of export demand is −0.75. A 1.2-percent decline in rice production causes a 28-cent increase in the market price. The market price of rice in 1985 was $6.53 per hundredweight (cwt). The estimated price with the production decrease is $6.81 per cwt. Without the rice production attributable to the SRPA, the domestic rice price would be higher.

Estimates of CCC deficiency payment costs must be recalculated if the price change results in a new deficiency payment rate. With rice, however, the loan rate was $8.00 per cwt in 1985. For calculating the deficiency payment rate, the loan rate is used whenever it is higher than the market price. In 1985, the price change due to SRPA rice production does not translate into a higher deficiency payment rate. In this case, CCC program costs need not be recalculated.

The 1985 Act also includes a marketing certificate provision designed to promote the competitiveness of rice and Upland cotton on the world market. The value of each certificate depends on the prevailing world market price. Because the rice production attributable to the SRPA is a negligible share of world production and trade, there are no price effects after 1985.

Diversion Payments

Diversion payments for reducing planted acreage provide an annual method to adjust crop production. These payments adjust the carryover stock of CCC program crops. In the 1987 farm program, for example, 27.5- and 20.0-percent acreage reductions are required to qualify for wheat and feed grain deficiency payments. Diversion payments are paid to feed grain producers who set aside an additional 15 percent of remaining acreage. The analysis assumes that voluntary diversion payments will not be necessary during the later years of the 1985 Act. The Acreage Reduction and Conservation Reserve programs are likely to adjust acreage sufficiently.

CASE STUDIES

A close inspection of the data reveals that the results largely depend on a small percentage of the irrigation districts. A few large irrigation districts effectively dominate the estimates of program costs attributable to the SRPA. These districts warrant closer examination to understand their effect on program cost estimates.

Rice accounted for 75 percent, or $6 million, of the $8 million in estimated program expenditures attributable to the SRPA in 1985 (table 5). For comparison, deficiency payments for rice on lands attributable to the SRPA account for 1.66 percent of national expenditures for rice. These expenditures can be traced to two irrigation districts in California, Glen Colusa and South Sutter. The two districts combined had 167,694 acres in irrigated rotation in 1985. Of the 67 SRPA projects completed by 1985, Glen Colusa and South Sutter accounted for 14.3 percent of the total acreage in irrigated rotation. Rice is the prevalent crop grown in the two districts, where 75 percent of the harvested acreage was devoted to its production in 1985. Rice production in Glen Colusa and South Sutter accounted for 92 percent of the rice produced in the 67 completed SRPA projects, and for 4.3 percent of national production.

The dominance of these two districts and of rice in the cost estimates attributed to the SRPA is a consequence of the procedure for allocating production to the SRPA. The share of district production attributable to the SRPA depends on the share of 1985 acreage added to land in irrigated rotation since the date of the loan application. In these two projects, 21.5 percent (36,065 acres) of the 1985 irrigated acres was added since the time of the loan application. Thus, surplus crop costs associated with rice constitute a large share of estimated SRPA expenditures for two reasons: (1) Glen Colusa and South Sutter are large irrigation districts growing predominantly rice, and (2) they substantially increased irrigated acreage since the date of the loan application. However, the price of rice increased from $8.11 per cwt in 1978 to $12.80 per cwt in 1980, encouraging rice producers to increase their acreage. Since 1980, prices have declined to less than $8 and rice acreage in the Glen Colusa district also has decreased. Thus, a portion of the increased rice acreage probably resulted from the price increase rather than entirely from the SRPA loan.

The Central Nebraska irrigation district provides another example of a large irrigation district dominating the estimates of program costs attributable to the SRPA. The estimated deficiency payments attributable to the SRPA in Central Nebraska accounted for $441,000 of the $572,100, or 77 percent of the estimated expenditures for corn (table 5). Deficiency payments for corn on lands attributable to the SRPA represent 0.02 percent of national corn expenditures. As with the two California districts, Central Nebraska is a large irrigation district that grows predominantly one crop, and has substantially increased acreage since the date of the loan application. While the irrigated corn acreage increased in the district, the acres had been used for dryland wheat and grain sorghum before the SRPA loan. Any increase in program expenditures, therefore, is due to increased yield from irrigation. Also, the switch from the wheat and sorghum deficiency payment rates to the lower corn deficiency payment rate may have reduced program expenditures (table 7).

These three irrigation districts also received large irrigation loans from the SRPA. Examining the projects receiving the largest irrigation loans reveals a correlation between loan size and increased irrigated acreage. Irrigated acreage expanded in seven of the nine districts with SRPA loans exceeding $5 million (table 8). These districts accounted for the majority of the incremental acreage attributed to the SRPA from the 67 completed projects. In 1985, 82,105 of the 334,590 acres in irrigated rotation, or 24.5 percent, were added to these nine districts after the date of loan application, compared with 6.7 percent for the 67 completed projects. Of the seven districts with substantial increases in irrigated acreage, six grow either CCC program crops or forage.

Valley Center Irrigation District is the major exception, growing exclusively fruit. Examining these large irrigation districts indicates that CCC program costs are sensitive to the composition of production combined with the size of the district receiving an SRPA loan (table 8).

TABLE 8.—IRRIGATION ACREAGE OF THE 9 PROJECTS WITH SRPA LOANS EXCEEDING $5 MILLION [1]

Irrigation districts and predominant crops	Acreage in irrigated rotation			Percentage of harvested acres devoted to predominant crops	Percentage of harvested acres devoted to program crops
	At loan application (number)	In 1985 (number)	Change in acreage [2] (number)		
Glen Colusa, CA (rice)	110,674	129,707	19,033 (14.7)	74.1	81.8
Pond Poso, CA (Upland cotton)	22,300	18,688	−3,612 (−19.3)	52.5	57.1
Valley Center, CA (fruit)	9,300	23,294	13,994 (60.1)	100.0	0
Central Neb., NE (corn)	33,642	40,344	6,702 (16.6)	94.3	94.8
Buttonwillow, CA (Upland cotton)	54,300	56,576	2,276 (4.02)	50.8	54.6
Ft. Collins, CO (forage)	1,500	1,640	140 (8.5)	[3] 45	40.0
Redwood Val., CA (forage)	585	4,104	3,519 (85.6)	[3] 82.8	0
Tehachapi Cumm., CA (fruit)	2,889	2,801	−88 (−3.1)	[4] 61.8	[4] 0
Nevada, CA (forage)	17,305	57,446	40,141 (69.8)	[3] 77.7	.9
Total	252,495	334,600	82,105	NA	NA

[1] Includes only those irrigation districts with projects completed by 1985. Information presented on loan size is based on 1982 data.

[2] Numbers in parentheses report the percentage of 1985 acreage in irrigated rotation that has been added (subtracted) since the date of loan application.

[3] Although forage (the predominant crop in this irrigation district) is not a program crop, increased forage production may stimulate milk production. This would link forage production to the CCC price support program for milk.

[4] Based on 1980 data because data for 1985 were unavailable.

NA Not applicable.

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PROGRAM CROP PRODUCTION AND FEDERAL IRRIGATION WATER

by

Michael R. Moore and Catherine A. McGuckin

The Federal Government, operating through the Bureau of Reclamation in the Department of the Interior, has provided nonreimbursable funds for development of rivers and streams in the American West to supply water for agriculture. Irrigated agriculture producers, consequently, pay a price for bureau water below the actual cost of supplying it.

A portion of the water helps produce program crops--barley, corn, cotton, oats, rice, sorghum, and wheat. Concurrently, the Federal Government supports prices of these crops and incomes of farmers who produce them through programs administered by USDA.

On lands receiving irrigation water from the Bureau of Reclamation, critics contend that Federal policies coalesce to create three issues of concern: consistency, as USDA programs offer incentives to limit acreage and production of program crops while the Federal water program, by subsidizing water use, encourages expansion of irrigated acreage and production (1); fairness, as agricultural producers without bureau water must compete with recipients of bureau water; and a Federal budget issue, as combined Federal expenditures on the two programs remain unassessed.

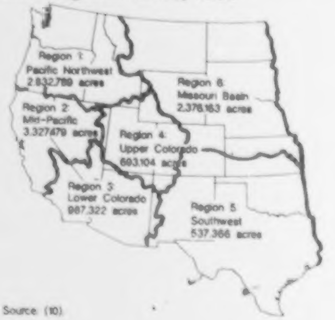
This article provides information on the operations of the two Federal programs and addresses the budget issue by estimating 1986 Federal irrigation water expenditures and 1980-86 farm program payments received by agricultural producers who irrigate program crops with bureau water.

Operations of the Bureau of Reclamation

The Bureau of Reclamation operates in six regional divisions that follow watershed boundaries of the major river systems in the 17 Western States (see figure). To accomplish its original mission--promoting permanent settlement of Western lands through establishment of irrigated agriculture--the bureau constructed 355 water storage reservoirs, 254 diversion dams, and thousands of miles of transportation canals, pipelines, tunnels, and laterals (10). This infrastructure of water-resource development concentrates on irrigation facilities and hydroelectric power facilities (rather than municipal and industrial facilities), with some of the hydropower also serving irrigation.

Total harvested, irrigated area in lands served by the bureau in 1986 was 10.09 million acres (table 1), and total bureau water delivered to farms was 27.21 million acre-feet (10). Of the total area, 4.18 million acres (41 percent) received full water service, 5.69 million acres (57 percent) received supplemental water service, and 0.22 million acres (2 percent) received temporary water service (10). Full water service means that an irrigator relies completely on the bureau for water supply, while supplemental means that an irrigator has additional water sources available. Temporary water service occurs simply as a temporary arrangement. The bureau provided irrigation water to 92,973 full-time farms and 57,332 part-time farms in 1986 (10).

Bureau of Reclamation Regional Boundaries and Irrigated Acres, 1986



Source: (10).

Lands served by the Bureau of Reclamation, like Western irrigated agriculture in general, produce a variety of crops. Bureau-served lands devote a large share of acreage to fruits, nuts, and vegetables, which are not the subject of Government support programs. At the same time, 3.38 million acres of program crops--a third of bureau acreage--are grown on these irrigated lands. The relatively large amount of irrigated alfalfa, other hay, pastureland, and other forage also is notable, accounting for 3.57 million bureau-served acres. High prices for dairy products resulting from the Federal dairy program may induce some of this feed production.

That the bureau serves over one-fourth of irrigated acreage in the 17 Western States reflects the important historical role of the Federal Government in irrigation development (table 1). Of Western irrigated vegetable acreage, four-fifths receives bureau water; much of this occurs in central and southern California's productive farmland. The share of national acreage in bureau-served lands is small, however, comprising only 2.3 percent of total cropland and

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Agricultural Resources: Cropland, Water, and
Conservation Situation and Outlook Report.
AR-12. Sept. 1988.

Table 1.--Bureau of Reclamation irrigated acres and production, 1986

Commodity	Crop acres					Crop production			
	Bureau harvested irrigated acres	Irrigated acres in 17 Western States 1/	Bureau percent of Western irrigated acres by crop	National harvested crop acres	Bureau percent of national acres by crop	Production units	Bureau crop production	National crop production 2/	Bureau percent of national production by crop
	1,000 acres		Percent	1,000 acres	Percent		1,000 production units		Percent
Program crops									
Barley	574.1	1,722.0	33.3	12,007.0	4.8	Bu.	46,510.9	610,497.0	7.6
Corn	916.2	6,795.7	13.5	69,189.0	1.3	Bu.	121,125.3	8,252,834.0	1.5
Upland cotton	679.1	-- 3/	-- 3/	8,357.3	8.1	Bale	1,499.3	9,525.2	15.7
Am. Pima cotton	44.8	-- 3/	-- 3/	111.1	40.3	Bale	70.6	205.9	34.3
Oats	72.8	-- 3/	-- 3/	6,870.0	1.1	Bu.	5,487.6	384,546.0	1.4
Rice	214.4	742.7	28.9	2,380.0	9.0	Cwt	15,469.7	134,416.0	11.5
Sorghum	89.1	1,589.8	5.6	13,904.0	0.6	Bu.	8,206.3	941,634.0	0.9
Wheat	784.7	3,913.9	20.0	60,688.0	1.3	Bu.	64,876.6	2,086,780.0	3.1
Nonprogram crops									
Alfalfa and other hay	2,365.6	8,008.0	29.5	62,274.0	3.8	Ton	11,393.2	155,271.0	7.3
Pasture land and other forage	1,200.8	-- 3/	-- 3/	-- 3/	-- 3/	Aum	-- 4/	-- 4/	-- 3/
Fruits and nuts	994.3	-- 3/	-- 3/	3,422.5	29.1	-- 4/	-- 4/	-- 4/	-- 3/
Vegetables	962.1	1,218.1	79.0	2,291.3	42.0	-- 4/	-- 4/	-- 4/	-- 3/
Other	1,187.5	-- 3/	-- 3/	-- 3/	-- 3/	-- 4/	-- 4/	-- 4/	-- 3/
TOTAL	10,085.5	38,157.1	26.4	447,783.0 5/	2.3				

1/ Figures are 1984 estimates from (9). These figures are the most recent estimates of irrigated acreage in the 17 Western States. 2/ 1986 preliminary estimates. 3/ Not available. 4/ No common production units for these crops. 5/ Figure includes cropland used for crops and pasture but does not include grassland pasture.

Sources: (7,9,10)

less than 10 percent of national acreage for most crops. This reflects the immense scale of American agriculture; it does not suggest that bureau-served lands are insignificant.

Note finally that, for each crop except pima cotton, the bureau's share of national production is larger than its share of national acreage (table 1). This reflects the higher yields produced by irrigation.

Irrigation Water Subsidies

The Federal reclamation program, initiated in 1902 with the National Reclamation Act and perpetuated with subsequent amendments and statutes, was designed to promote permanent Western settlement by financing irrigation projects. More than simply establishing an agricultural base, however, provisions in the program geared reclamation to the working farmer and the family farm. These included the original 160-acre limitation, which stated that reclamation water could not be applied to more than 160 acres under sole ownership, and a later provision that priced Federal irrigation water at a farmer's "ability to pay." The ability-to-pay provision determined a project's water price by evaluating the income potential of irrigating the project's land. By doing so, water price was set independently of a project's construction costs.

The Federal irrigation water subsidy occurs because Federal expenditures on water supply are not completely reimbursed by contractual water prices. Two components of the price-setting procedure result in subsidy: 1) setting contractual water price on the irrigators' ability to pay rather than on the actual water supply cost, and 2) funding water project construction costs without charging interest on the loaned funds. The second component created a financing subsidy because the Government, at the time of construction, paid construction costs allocated to irrigation while the irrigators repaid these without interest over a long repayment period.

Reclamation contracts governing the repayment terms of water project construction costs allocated to irrigation generally apply for 40 years, thereby assuring predictable, long-term water deliveries at the contractual water price. Because of the reclamation program's long-term stability, many reclamation subsidies have been capitalized, wholly or partially, into the value of land receiving reclamation water (4). The market price of the land, reflecting the financial value of Federal support and the availability of reclamation water, greatly exceeds that of nonirrigated land in the West. Consequently, the original owner of the land receives some portion of the financial value of the reclamation subsidy. Subsequent owners, when land has been exchanged, already have paid for some or all of the value of Federal support, having agreed to a price that reflects the benefit of some portion of the reclamation subsidy.

The possibility of the reclamation subsidy already being appropriated when the original owner has sold the land should be recognized: information on subsidy appropriation could influence the fairness of policy changes affecting contractual water prices. LeVeen and Goldman (4) concluded

Table 2.--Contract prices, full-cost prices, and subsidy rates for water delivered from selected Bureau of Reclamation projects

Project, State	Contract price	Full-cost price	Subsidy rate
		$/acre	
Arnold, OR	1.14	1.74	0.60
Mann Creek, ID	3.99	60.52	56.53
Yakima, WA	3.44	10.85	7.41
Feather River Unit (CVP 1/, 3/), CA	3.99	37.13	33.14
Cow Creek Unit (CVP 1/, 3/), CA	19.76	182.51	162.75
Boulder Canyon, AZ-CA-NV	11.95	18.50	6.55
Gila, AZ	8.35	31.37	23.02
Collbran, CO	0.98	21.50	20.52
Weber Basin, UT	21.27	80.60	59.33
Middle Rio Grande, NM	4.15	21.05	16.90
W.C. Austin, OK	1.10	1.90	0.80
Huntley, MT	1.17	2.79	1.62
Ainsworth Unit (PSMBP 2/), NE	2.43	57.79	55.36
Hanover-Bluff Unit (PSMBP 2/), ND	2.51	90.83	88.32
Kansas-Bostwick Unit (PSMBP 2/), KS	9.45	80.95	71.50
Shadehill Unit (PSMBP 2/), SD	2.25	45.84	43.59
Shoshone, MT-WY	1.55	8.36	6.81

1/ "CVP" represents Central Valley Project. 2/ "PSMBP" represents Pick-Sloan Missouri Basin Project. 3/ The original prices for CVP units are expressed in dollars per acre-foot. Figures are converted to dollars per acre using average water application rates for the CVP units from (10).

Source: (11)

that this fairness issue continually poses a dilemma when considering reform of reclamation policy, writing that, "Imposition of new regulations which force the sale of land at pre-project value would impose significant and uncompensated welfare losses on many who purchased the land at prices which include project benefits." (p. 933). However, little specific information exists about the fairness issue.

Reclamation water prices and subsidy rates vary from project to project. They depend primarily on the difference between the actual construction and financing costs of a project and the estimated profitability of irrigation on the lands served by it. Table 2 contains subsidy rates that are calculated as the difference between contractual water prices and full-cost prices for 17 projects that are representative of 143 total bureau projects (11). The subsidy rates range from a low of $0.60 per acre in Arnold Project in Oregon to $162.75 per acre in the Cow Creek Unit of Central Valley Project in California. Information on full cost prices, and thus the reported subsidy rates, is taken directly from a report by the U.S. Department of the Interior (11), which used a definition of full-cost price from Section 203(a) of the Reclamation Reform Act of 1982. The definition does not include past subsidies created by the ability-to-pay provision, which allocated too few costs to irrigation. Table 2's subsidy rates, consequently, provide a lower bound estimate of actual Federal expenditure rates on irrigation water that have not been reimbursed.

Agricultural Commodity Payments

Federal Government intervention in agricultural markets, initiated in the 1930's, accomplishes three objectives: protection of agricultural producers from low market prices, accomplished by setting a price floor for program crops; support of farm income, accomplished by setting a target price for program crops; and national food security, accomplished by Government ownership of commodity reserves and by programs to guide planted acreage to maintain desired levels of reserves (3).

All three may result in payments or subsidies to agricultural producers, depending on the controlling legislation at the time and annual market prices. Beginning in the 1970's, Congress limited total program payments to individuals, with the current limit set at $50,000 per year.

Participation in commodity programs is voluntary, and compliance with certain land set-aside provisions is often the only requirement. In contrast with the Federal reclamation program's lengthy contracts, commodity programs establish an annual, renewable contract between agricultural producers and the Federal Government. Legislation governing general features of commodity programs applies to 4- or 5-year periods.[1] These characteristics may make the provisions of commodity programs, relative to the reclamation program, easier to amend and adapt to current situations.

Participation in a commodity program qualifies a producer for three forms of USDA payments: price support, income support, and paid land diversion (2). The price support system operates through nonrecourse loans that USDA makes to producers to help with planting costs. Loans are made at a level termed the loan rate, which the Secretary of Agriculture sets prior to the growing season. Producers can repay the loans with either money or forfeited commodities. When the actual market price exceeds the loan rate plus interest charges on the loan, a producer will repay with money. No Government subsidy in the form of price support occurs in this case. When the loan rate exceeds the market price, the program sets a price floor at the loan rate. The producer will repay with forfeited commodities, and the Government has no recourse but to accept this form of repayment.

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[1] The Food and Agriculture Act of 1977 guided agricultural policy through 1981, the Agriculture and Food Act of 1981 guided policy between 1982 and 1985, and the Food Security Act of 1985 guides policy through 1990. Within the legislation's general structure, the Secretary of Agriculture defines specific features of commodity programs annually to adjust them to current circumstances.

Table 3.--Prices and payment rates by commodity for representative years: 1980, 1984, and 1985

	1980						1984						1985					
	Prices			Payment rates			Prices			Payment rates			Prices			Payment rates		
Commodity	Target price	Loan rate	Market price	DPR 1/	PSL 2/	PLD 3/	Target price	Loan rate	Market price	DPR	PSL	PLD	Target price	Loan rate	Market price	DPR	PSL	PLD
Barley ($/bu.)	2.55	1.83	2.91	0	0	NP 4/	2.60	2.08	2.29	0.31	0	NP	2.60	2.08	1.98	0.52	0.10	NP
Corn ($/bu.)	2.35	2.25	3.27	0	0	NP	3.03	2.55	2.63	0.40	0	NP	3.03	2.55	2.23	0.48	0.32	NP
Cotton ($/lb.)	0.58	0.48	0.76	0	0	NP	0.81	0.55	0.58	0.24	0	NP	0.81	0.57	0.56	0.24	0.01	0.30
Oats ($/bu.)	1.23	1.16	1.82	0	0	NP	1.60	1.31	1.67	0	0	NP	1.60	1.31	1.23	0.29	0.08	NP
Rice ($/cwt)	9.49	7.12	12.00	0	0	NP	11.90	8.00	8.04	3.86	0	NP	11.90	8.00	6.53	3.90	1.47	3.50
Sorghum ($/bu.)	2.50	2.14	3.02	0	0	NP	2.88	2.42	2.32	0.46	0.1	NP	2.88	2.42	1.93	0.46	0.49	NP
Wheat ($/bu.)	3.63	3.00	3.96	0	0	NP	4.38	3.30	3.39	0.99	0	2.70	4.38	3.30	3.08	1.08	0.22	2.70

1/ DPR is the deficiency payment rate, calculated as the target price minus the higher of either the market price or the pre-set price floor; it equals zero when the market price exceeds the target price. This paper calculates DPR using crop prices from (8), which explains the slight deviation from official DPR's. 2/ PSL is the net subsidy rate of price support loans, calculated as the loan rate minus the market prico whenever the loan rate exceeds the market price; it equals zero when market price exceeds the loan rate. 3/ PLD is the payment rate for voluntary paid land diversion. 4/ NP = No program defined for the commodity in the year.

Source: (5,8)

Repayment in forfeited commodities creates an effective payment, or subsidy, to producers at a rate defined by the difference between the loan rate and the market price. The Government effectively pays for the crop at the loan rate yet receives in-kind payment whose value is determined by the (lower) market price. This article defines this subsidy rate as the price-support loan rate (PSL).

The Food Security Act of 1985 modifies the nonrecourse loan program for upland cotton and rice (2). Producers can repay loans for upland cotton and rice at an adjusted world market price. This provides producers the incentive to sell these commodities on world markets and repay loans with money rather than forfeiting production to USDA as the form of repayment.

Income support is provided through deficiency payments. Program participants receive payment at a rate equal to the difference between a target price and the higher of either the average marketing year price or the loan rate; this is termed the deficiency payment rate (DPR). The Food Security Act of 1985 guides target prices through 1990, with the Secretary of Agriculture setting specific target prices prior to the growing season. When the market price equals or exceeds the target price, the deficiency payment rate will equal zero. In this case, market price is sufficiently high to render income support (and, in fact, price support) unnecessary.[2]

The paid land diversion rate (PLD) defines the payment rate for voluntary land diversion in excess of acreage reduction requirements for a particular crop. It is set before the growing season and exists independently of market prices.

Rates for the three forms of commodity payment vary by commodity and by year. Information from three representative years--1980, 1984, and 1985--illustrates how they vary depending on actual market and target prices and loan rates (table 3).

Target prices were uniformly lower and market prices uniformly higher in 1980 relative to 1984 and 1985. In 1980, market prices exceeded target prices for each commodity, with payment rates for income support and price support consequently equal to zero. In contrast, the 1985 combination of high target prices and depressed market prices resulted in high payment rates for 1985. Compare these also to the 1984 payment rates: the 1984 target prices equaled the 1985, yet 1984 deficiency payment rates were lower and price-support loan rates, generally, were zero because of relatively strong market prices that year.

Provisions for voluntary paid land diversion also varied by year and by crop, with no programs in 1980, diversion payments for wheat in 1984, and diversion payments for upland cotton, rice, and wheat in 1985.

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[2] The 1988 drought may create a situation where conventional income and price support programs are not necessary throughout the Nation because market prices are high as a consequence of the drought. Disaster payments, though, may be necessary to supplement farm income in regions where drought conditions severely affect production.

Table 4.--Estimated total agricultural commodity program payments on lands receiving Bureau of Reclamation water, 1980-1985

Commodity	1980	1981	1982	1983 1/	1984	1985
			$ Million (nominal terms)			
Barley	0.0 2/	7.1	10.1	6.4	6.0	16.9
Corn	0.0 2/	0.0 2/	4.1	116.8	23.5	67.9
Upland cotton	0.0 2/	211.4	108.4	229.7	151.6	193.2
Am. Pima cotton	0.0 2/	-- 3/	-- 3/	0.0 2/	1.0	2.3
Oats	0.0 2/	0.0 2/	0.0 2/	0.1	0.0 2/	0.1
Rice	0.0 2/	32.5	42.7	70.2	50.3	82.4
Sorghum	0.0 2/	2.3	0.7	6.2	1.5	3.0
Wheat	0.0 2/	10.0	22.3	116.6	65.0	80.6
Total	0.0	263.3	188.3	546.0	298.9	446.5

1/ 1983 estimates include payments from Payment-in-Kind (PIK) program. 2/ No program payments made for this crop in this year because market price exceeded target price. 3/ No program for this crop in this year.

Sources: (5,7,8,10)

The Food Security Act of 1985 seeks to give the agricultural economy a market orientation by linking target prices, price floors, and historical market prices more closely (2). Its provisions include: target prices that decline between 1986 and 1990 so that deficiency payment rates should decline; lower loan rates so that Government-owned reserves should decline; and high mandatory acreage reduction and the Conservation Reserve Program (a provision to remove additional acreage from production for a 10-year period) so that paid land diversion may not be necessary.

Estimated Federal Payments to Producers Receiving Bureau Water

Agricultural Commodity Payments, 1980-85

Estimates of annual total commodity payments received by agricultural producers who used bureau water vary depending on the annual commodity payment rates. During 1980-85, estimated total agricultural payments--from price support payments, income support payments, and paid land diversion--ranged from $0 (in 1980) to $546 million (in 1983) (table 4). Payments peaked in 1983 because of the Payment-in-Kind program (PIK). Total payments in 1985 were higher than in 1984 because the 1985 payment rates were uniformly higher (table 3). Upland cotton producers received a large share of the total each year, including 80 percent of the 1981 total. This was due to the relatively large irrigated acreage of upland cotton in bureau-served lands (table 1), along with upland cotton's relatively high target prices and low market prices during the period (table 3). Wheat, corn, and rice producers also received significant shares of the total payments during most of the period.

Agricultural Commodity Payments and Irrigation Water Subsidies, 1986

Critics of the Federal programs in bureau regions contend that the "double subsidy" of agricultural producers--combined commodity payments and water subsidies--creates a situation of excessive Federal aid.[3] An accurate accounting of the apparent double subsidy must recognize two facts: first, only a portion of bureau-served, program-crop producers participate in commodity programs in any given year, and, second, only a portion of bureau projects still receive Federal irrigation water subsidies according to the definition of subsidy used by the bureau (11).

The intersection of these two groups constitute the class of bureau-served lands receiving a double subsidy. For example, estimated total commodity payments made to bureau-served lands was $495.77 million in 1986 (table 5). After removing the unsubsidized bureau projects, commodity payments were reduced to $378.79 million. Similarly, 1986 irrigation water subsidies for program crop production decreased from $84.97 million to $66.49 million when including only the acreage that participated in commodity programs (table 5).

Table 5.--Commodity payments and irrigation water subsidies, 1986

	All bureau lands	Bureau lands participating in both programs
	$ Million	
Commodity payments	495.77	378.79
Water subsidies for program crop production	84.97	66.49

Sources: (5,7,8,10,11)

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[3] Supporters of the Irrigation Subsidy Reform Act (H.R. 1443) take this position. The proposed legislation, under consideration in the U.S. House of Representatives, would charge full-cost water prices when bureau water irrigates program crops. The current article does not take the position that a double subsidy inherently should be scrutinized. A single company, farm, or family frequently receives two or more Federal subsidies as incentive to achieve social objectives. A family, for example, can receive several subsidies through the Federal tax code: for home ownership, municipal bond ownership, charitable contributions, and dependent children.

Table 6.--Estimated commodity program payments and irrigation water subsidies to lands participating in both programs on Bureau of Reclamation lands, 1986

	Pacific Northwest		Mid-Pacific		Lower Colorado		Upper Colorado		Southwest		Missouri Basin		TOTAL BY CROP	
Commodity	CP 1/	IWS 2/	CP	IWS	CP	IWS	CP	IWS	CP	IWS	CP	IWS	CP	IWS
							$ Million							
Barley	5.55	0.82	1.10	1.64	0.02	0.01	0.67	0.37	0.01	-- 8/	4.77	1.39	12.43	4.22
Corn	6.64	3.21	3.52	1.62	0.02	-- 4/	2.41	0.28	0.29	0.04	56.21	12.91	69.09	18.07
Upland cotton	-- 3/	-- 3/	92.49	26.31	8.98	0.36	-- 3/	-- 3/	5.22	0.03	-- 3/	-- 3/	106.69	26.70
Am. Pima cotton	-- 3/	-- 3/	0.01	0.01	-- 9/	-- 5/	-- 3/	-- 3/	-- 9/	-- 5/	-- 3/	-- 3/	0.01	0.01
Oats	0.12	0.14	-- 6/	0.08	-- 6/	-- 4/	0.02	0.04	-- 4/	-- 4/	0.09	0.09	0.23	0.36
Rice	-- 3/	-- 3/	108.00	3.22	-- 3/	-- 3/	-- 3/	-- 3/	-- 3/	-- 3/	-- 3/	-- 3/	108.00	3.22
Sorghum	0.01	-- 4/	0.87	0.29	0.03	-- 8/	-- 9/	-- 6/	0.66	0.06	2.64	1.61	4.21	1.96
Wheat 7/	54.12	5.29	8.16	3.56	8.58	0.16	1.33	0.50	1.31	0.07	5.40	2.36	78.09	11.94
TOTAL BY REGION	66.44	9.47	214.15	36.74	17.63	0.54	4.43	1.19	7.49	0.20	69.11	18.36	378.79	66.49

1/ CP represents estimated total commodity payments for program crops in bureau regions. 2/ IWS represents estimated irrigation water subsidies received by producers participating in USDA commodity programs on bureau lands. This figure is the difference between the potential full cost revenue and normal contractual revenues for program crops in these regions using price information from (11). 3/ Not applicable. Crop is not grown in this bureau region. 4/ Negligible. 5/ No subsidy exists for the crop grown in this bureau region because the project in which it is grown has fulfilled its repayment obligation to the Federal Government. 6/ No commodity payment is made for this crop because market price exceeds target price in this bureau region. 7/ Wheat payment estimates include paid land diversion payments but do not include Payment-in-Kind (PIK) estimates. PIK estimates would be minor because PIK provisions in the Food Security Act of 1985 are a minor component of price and income supports. 8/ The value of the estimated subsidy is less than $5,000. 9/ No subsidy occurs for this crop because the bureau project in which it is grown does not receive an irrigation subsidy.

Sources: (5,7,8,10,11)

Note that, although commodity payments greatly exceeded water subsidies in 1986, this may not be true in general because of the fluctuation in commodity payments (table 4). Irrigation water subsidies experience less dramatic changes because long-term contracts establish the basic water subsidy rates. In 1980-86, commodity payments exceeded water subsidies in every year but 1980.

Table 6 disaggregates, by program crop and by bureau region, the information in table 5 on bureau lands receiving a double subsidy. Among crops, rice ($108.0 million), upland cotton ($106.69 million), wheat ($78.09 million), and corn ($69.09 million) received the largest commodity subsidies in 1986. Upland cotton ($26.7 million), corn ($18.07 million), and wheat ($11.94 million) received the largest water subsidies. Several large crop subsidies were concentrated in single regions: upland cotton and rice in the Mid-Pacific, corn in the Missouri Basin, and wheat in the Pacific Northwest.

Commodity Payments and Water Subsidies Per Acre, 1986

Converting commodity payments and irrigation water subsidies to a per-acre basis provides a final perspective on the programs. Information on per-acre subsidies eliminates the influence of acreage as a determinant of crop and regional totals: the large bureau-served acreage in the Mid-Pacific region, for example, explains partially the large subsidies there (tables 1 and 6). Consider the per-acre commodity payments for corn and wheat (table 7). For corn, these ranged from $73 in the Lower Colorado region to $201 in the Missouri Basin region. Higher corn yields and lower market prices for corn in the Missouri Basin, and the reciprocal situation in the Lower Colorado, explain this result. Wheat exhibits a smaller range of payments per acre, indicating less variation in regional wheat yields and prices.

Table 7.--Estimated per acre program crop payments and irrigation water subsidies on Bureau of Reclamation lands in 1986

Region	Corn		Wheat	
	CP 1/	IWS 2/	CP	IWS
		$/acre		
Pacific Northwest	73	35	188	18
Mid-Pacific	92	43	130	57
Lower Colorado	73	6	158	3
Upper Colorado	163	19	111	42
Southwest	108	2	112	6
Missouri Basin	201	46	95	41
Weighted Average	163	43	116	25

1/ CP represents estimated per acre commodity payments for corn and wheat in bureau regions. 2/ IWS represents estimated per acre irrigation water subsidies on bureau lands served by subsidized water.

Sources: (5,7,8,10,11)

Regional differences in water subsidy rates explain the variation in crop-specific per-acre water subsidies. Corn and wheat subsidies again represent the regional patterns (table 7). Projects in the Mid-Pacific and Missouri Basin regions are relatively newer and have more years remaining before they complete their contractual payments. Their per-acre water subsidies are relatively high. Projects in the Southwest and Lower Colorado regions are relatively older and tend to have relatively lower per acre water subsidies.

Conclusion

This article assesses the magnitude of Federal expenditures on commodity payments and irrigation water subsidies made to agricultural producers who irrigate with Bureau of Reclamation water. Estimates of annual agricultural commodity payments range from $0 to $546 million during 1980-85. In 1986, the estimate of commodity payments is $496 million, while the estimate of Federal irrigation water subsidies for program crop production is $85 million.

A particular concern is the "double subsidy"--the amount of subsidy received by producers who, in the same year, participated in commodity programs and received irrigation water from a bureau project that continues to be subsidized. In 1986, this class of producers received an estimated $379 million in commodity payments (of the $496 million total) and $66 million in irrigation water subsidies (of the $85 million total).

Proposed new policies that would change the existing situation of program crop production with bureau water include altering reclamation water prices, either immediately or when current contracts expire, and excluding recipients of bureau water from participation in commodity programs.

Any policy changes directed at agricultural producers in bureau-served lands must consider several qualifications. First, the issue of whether the water subsidy is either real or only apparent to the current generation of producers with bureau contracts affects the fairness of any new policy that would alter reclamation water prices. Perhaps any new policy should allow producers whose subsidy was appropriated by an earlier generation of landowners to demonstrate this with the financial record of the farm pur-

Estimating Producer Subsidies from Agricultural Commodity Programs and the Federal Irrigation Water Program

Tables 4 through 7 estimate producer subsidies from agricultural commodity programs and the irrigation water program. With commodity programs, price- and income-support subsidies are computed, for each commodity and each year, as the product of: 1) the deficiency payment rates (DPR) or price-support loan payment rates (PSL) like those in table 3, 2) bureau-wide production of the commodity, and 3) the national average rate of participation in the particular commodity program. Subsidies for paid land diversion are computed, for each commodity and each year, as the product of: 1) the PLD subsidy rates as in table 3, 2) estimated bureau base acreage of the commodity, 3) average yield of the commodity in bureau-served lands, and 4) the national average rate of participation in the land diversion programs relative to national base acreage.

Subsidy estimates for 1983 include PIK subsidies in addition to conventional payments for income support, price support, and paid land diversion programs. PIK subsidy estimates are made by multiplying an estimate (based on PIK participation rates and estimated bureau base acreages) of in-kind transfers of program commodities by the 1983 market prices of the commodities.

In tables 5 and 6, commodity estimates are made as in table 4 with three exceptions. One, to encourage exports, the Food Security of 1985 defines new price-support subsidy rates for upland cotton and rice as the difference between the price floor and an adjusted world market price (instead of U.S. average price). Two, to obtain more accurate estimates of the regional subsidies, the computations use specific participation rates and market prices for each of the 17 Western States in place of national averages. For example, to estimate income support subsidies for barley in the Pacific Northwest region, the product of: 1) barley production in Montana's Pacific Northwest projects, 2) a deficiency payment rate composed of barley's target price minus Montana's market price for barley, and 3) Montana's participation rate in the barley program, is added to similar calculations for Idaho, Oregon, and Washington to compute the regional total. A similar calculation is made for price support subsidies and land diversion payments, for each crop and each region, to produce the estimates in table 6. And three, only lands in bureau projects that are subsidized, according to the definition in a report by the U.S. Department of the Interior (11), contribute to the payment estimates in table 6. Table 5 contains the same calculations simply aggregated to bureau totals and, in addition, estimates commodity payments in both subsidized and unsubsidized bureau projects.

The agricultural subsidy figures rely on three assumptions that make the figures estimates rather than actual subsidies. The assumptions, which are required to replace unavailable information, include: agricultural producers receiving Bureau of Reclamation water participate in agricultural crop programs at the same rate as the national average participation rate; the ratio of bureau irrigated, harvested acreage to program base acreage [defined in (2)] equals the national average ratio of harvested acreage to program base acreage; and actual crop yields on bureau lands replace program yields, which are set from historical yield information from individual farms (2).

The irrigation water subsidies in table 5 and 6 are calculated for each program crop using water subsidy rates [from (11)] and crop-specific irrigated acreage for each project within a bureau region, then summed over projects in the region to compute the regional total. For example, multiplication of irrigated acreage of wheat participating in the wheat commodity program in the Yakima project in Washington by the project's water subsidy rate per acre (table 2) yields the project's estimated subsidy of water used in wheat production. Repeating this for wheat in each of the region's projects, then summing, yields the Pacific Northwest estimated subsidy of water used in wheat production in table 6. Table 5 contains the same calculations simply aggregated to bureau totals. The irrigation water subsidy estimates in tables 5 and 6 assume that, within a bureau project, water application rates are constant across crops.

Note that tables 4-6 estimate total producer subsidies, not total program costs to the Federal Government. Total agricultural program costs include crop reserve storage and administrative costs. Water program costs include administrative costs.

Table 7 expresses commodity payments and water subsidies from table 6 on a per-acre basis for corn and wheat. Estimated corn payments and wheat payments are divided by estimated acreage participating in corn and wheat programs, respectively, for each bureau region. Estimated water subsidies are divided by irrigated, harvested corn acreage and wheat acreage within bureau projects receiving subsidies.

chase. Such evidence might exclude them from a new policy.

Second, this article offers no insight into the effect of a new policy. The calculations use historical information to estimate previous subsidy levels. They do not project changes in agricultural production, cropping pattern, water use, or subsidy levels that certainly would follow from a new policy.

Third, within the next few years, agricultural policies under consideration may affect the importance of the topic of program crop production and Federal irrigation water. For example, the Food Security Act of 1985 gives the agricultural economy a market orientation by reducing commodity program payment rates. The next major farm legislation, which will take effect in 1991, could continue to reduce payment rates. Alternatively, it could either lock in 1990 payment rates into the 1991 legislation or dramatically redirect farm programs. The direction chosen will affect the importance of Federal support levels as a policy issue.

On a related front, current international trade negotiations proceeding under the General Agreement on Tariffs and Trade also are addressing the topic of agricultural subsidies, for both agricultural products and inputs. A multilateral agreement to reduce or remove subsidies may occur between the United States and its trading partners. These arenas of agricultural policy may influence the need to address specifically the topic of program crop production using Federal irrigation water.

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QUESTION FROM SENATOR HARKIN NO. 85

Question. Recent events indicate that consumer confidence in the safety of the food supply has been shaken. It would be devastating for farmers, consumers and the food industry to continue to have these food scares crop up periodically. I am convinced that consumers are going to have to be assured that their food is safe. Obviously, this will require more than the Federal Government simply saying it is so. A solid basis of trust must be rebuilt. USDA is, of course, not the only agency involved in this matter. What should be done by the Federal Government generally, and by USDA specifically, to rebuild confidence in the safety of the United States food supply?

Answer. All Federal agencies, particularly in the context of the current pesticide debate, must make sound, scientifically based decisions about food quality and safety, not fashioned from fear or emotion. The broadened use of independent, qualified, world class peer review panels and boards will increase public confidence. The Federal Government should fund studies on risk assessment, the use of animal studies and their relevance to humans. The public deserves more meaningful and understandable information on human health risks. There should be a coordinated Federal response to food safety issues and a long-term commitment to maintaining strong and effective food protection programs.

USDA is increasing the effectiveness of its food protection programs through ongoing research, including testing, public reviews and the adoption of new inspection technology, assuring that methods are adequate for today's modern food production and distribution systems. USDA needs to better explain how these responsibilities are carried out. USDA should strengthen and expand its leadership role for assuring food quality and public education and communication.

President Bush has recognized the importance of a coordinated approach to food safety and assigned a White House Working Group the task of addressing food safety issues. The group includes the Department of Agriculture, the Department of Health and Human Services and the Environmental Protection Agency.

QUESTION FROM SENATOR HARKIN NO. 86

Question. In your testimony, you indicated that the Conservation Reserve Program is costly and that with present short supplies we should consider other ways to achieve conservation goals.

What conclusions has USDA reached regarding the cost of the CRP program versus the costs the government would have incurred under the commodity programs if that land had remained in production and been enrolled in the commodity programs?

What measures other than the CRP might you have in mind?

Would you perhaps envision a shorter term program similar to the CRP?

Do you have ideas about the relative merits of various policy options that have been suggested regarding CRP land once the 10-year contracts have expired, such as renewing the contracts or having the government purchase easements restricting cropping rights?

Answer. A 40-million acre Conservation Reserve Program (CRP) would decrease Commodity Credit Corporation (CCC) price and income support outlays during the 15-year enrollment and contract period (FY 1987–FY 2001) by $11.1 billion compared with estimated CCC outlays that would have occurred if there were no CRP. However, CRP outlays under a 40-million acre program would be $24.1 billion over the 15-year period, resulting in a net outlay for CRP of $13.1 billion.

About 2 years ago, USDA estimated greater reductions in CCC price and income support outlays due to CRP enrollment and, consequently, much lower net outlays for CRP—about $2 billion. This estimate was based on the results obtained from a similar set of models, but used on an older and substantially different set of baseline assumptions about expected supply-demand-price and CCC program conditions than did the current analysis. The older baseline assumed substantially lower market prices, much higher program commodity stock levels, higher ARP/PLD levels, and larger CCC program outlays. The analysis covered only the 1986–1992 period, assumed that ARP/PLD's would remain at baseline levels in the absence of the CRP, and assumed that CRP enrollment would be 45 million acres. The current analysis utilizes substantially lower stock levels, higher market prices, lower ARP/PLD levels and lower CCC program outlays. In addition, the current analysis indicates that ARP/PLD levels would be higher in the absence of CRP and that CRP enrollment will equal 40 million acres. The combination of changes in baseline assumption, increases in ARP/PLD levels in absence of CRP, and smaller enrollment could be expected to lead to the substantially lower CRP-induced CCC outlay reductions and increased net outlays for CRP found in the current analysis compared with the earlier analysis.

Measures other than the CRP that could help achieve conservation goals are under consideration in the Department of Agriculture s analysis of legislative initiatives for the upcoming farm bill. Initiatives under consideration include the following:

—Increasing the flexibility of the provisions of the commodity price and income support programs to provide producers with the opportunity to adopt new environmentally sustainable production systems.

—Reviewing target price relationships to ensure that production incentives are not distorted, leading to unnecessary crop surpluses and excessive soil erosion and agricultural chemical use.

—Diminishing the connection between income supports and production levels to minimize adverse environmental consequences and reduce taxpayer costs.

—Increasing research activities that enhance the understanding of basic plant and animal sciences and address specific environmental priorities. Developing and disseminating informed management strategies that can be implemented by producers to assure an environmentally sound and profitable agriculture.

—Replacing the current Water Bank Program with a permanent conservation easement program.

USDA is very aware of the concerns about the use of CRP acreage after expiration of the 10-year contracts. Consideration of various options to address the concerns are underway. The options include the following:

—Encouraging and assisting farmers to adopt environmentally sound, yet profitable, crop and livestock production practices if the land is returned to production. Permanent retirement is not necessary for all acreage. Much of the CRP land can be cropped and protected from excessive erosion if appropriate safeguards are utilized.

—Purchasing production easements to control the uses of land with severe limitations.

—Offering contract renewals, the length and rental payment rate depending on environmental and market conditions.

—Reducing incentives to resume cropping CRP acreage by continuing protection of producers' acreage base history.

QUESTION FROM SENATOR HARKIN NO. 87

Question. Cattle producers believe they should be allowed to place grain under CCC loan that is harvested and stored as silage without having to weigh the silage, that is they would like to use field measurement.

a. What is USDA's position on this question?

b. Would allowing this practice require a statutory change?

Answer. USDA's position has been that price support loans shall not be offered on field measurements of commodities harvested and stored as silage. Current policies permit producers to place high-moisture corn or sorghum under loan if they immediately redeem the loans with commodity certificates. Producers are required to submit acceptable documentation of the weight of high-moisture commodity.

A notice requesting comments on the 1990 Feed Grain Program, including comments on making loans on silage, will be published in the Federal Register soon.

QUESTION FROM SENATOR HARKIN NO. 88

Question. What is the administration's view on the possibility of regularly allowing farmers access to ACR and CU acres in exchange for payment of a rental fee?

Answer. This administration would favor allowing farmers access to their ACR and CU acres in exchange for payment of a rental fee only in those counties where it is determined that a current year livestock emergency exists because of a natural disaster.

Question. Would this policy require a statutory change?

Answer. Yes, it would.

QUESTION FROM SENATOR HARKIN NO. 89

Question. Livestock producers have found the allowances under the emergency livestock assistance programs to be inadequate. Will USDA review these allowances to ensure that they reflect the needs of modern livestock production?

Answer. Yes, in fact we are currently reviewing the level of feed assistance made available to the various types of animals. In the review, we will look very closely at the nutrient requirements as established by the Committee on Animal Nutrition, Board of Agriculture, National Research Council.

I believe the key to this issue is the statement you have just made, that is, allowances are inadequate. Inadequate for what? In determining feed needs, we must keep in mind that section 603 of the Agricultural Act of 1949 as added by the Emergency Livestock Feed Assistance Act of 1988 states that the Secretary of Agriculture shall provide emergency feed assistance for the preservation and maintenance of livestock.

A beef cow has been determined to be the basic animal unit, and the amount of feed needed to preserve and maintain one unit has been determined to be 10 pounds of feed grain equivalent per day. Comparable feed needs have been established for other types of livestock and poultry based on their age and feed needs under average climatic conditions. These allowances have been established to preserve and maintain livestock; they are not intended to provide optimum nutrition for weight gain or milk production. The current nutritional requirements are based on Frank Morrison's work as published in *"Feed and Feeding."*

As I stated earlier, we are looking at the level of allowances provided and will amend the regulations if we determine the feeding rates should be adjusted.

Another much misunderstood provision of the program is the 10 pounds per day per animal unit. The program provides 10 pounds of feed grain equivalent (FGE) per day per animal unit. The producers are allowed to determine their own feed rations. For example, to attain the 10 pounds of FGE per day per animal unit, a producer may choose to feed 4 pounds of feed grain which is equal to 4 pounds FGE and 9.4 pounds of alfalfa hay, which is equal to 6 pounds of FGE for a total of 13.4 pounds of feed per day.

QUESTION FROM SENATOR HARKIN NO. 90

Question. Recent figures show that about 1.3 billion bushels of corn from the 1984, 1985, and 1986 crops remain under farmer owned reserve (FOR) and extended Commodity Credit Corporation (CCC) loans. Loans on 1.2 billion bushels of this amount will mature during July, August, September, and October of 1989. In addition, 600 million bushels of 1988 crop corn under regular loan will mature during these months.

a. I am concerned about the price depressing effect of such amounts of corn coming on the market in a relatively short period of time. What analysis has the Department of Agriculture done of the price impact of this corn coming on the market in such a short space of time?

b. Has USDA analyzed the possibility of extending some or all of these loans? Has USDA considered the possibility of extending the 1985 and 1986 crop loans and allowing 1984 loans to mature or some other such combination?

c. If there is a change in policy on this matter the announcement should not be delayed. USDA has not indicated so far that any loans may be extended, but farmers have good reason to wonder whether they may be. Will USDA avoid last minute announcements on any changes in policy?

d. With the kind of carryover now projected, 1.8 billion bushels, a significant amount of corn is going to be stored into the next year. I would prefer that that corn remain in storage under farmer ownership. What analysis has USDA done of the costs to the government of storing corn that is forfeited when loans expire?

Answer. a. Department projections developed by the Interagency Commodity Estimates Committee show that 1989/90 ending stocks for corn will likely increase from 1,830 to 2,233 million bushels. In addition, current corn and sorghum market prices are about 140 percent of the 1988 loan levels, but, assuming normal weather, these prices will likely decline to below 140 percent of the 1989 loan level.

Estimates for 1988/89 and projections for 1989/90 use of corn are shown below:

1988/89 AND 1989/90 CORN SUPPLY AND DEMAND

	1988/89	1989/90
Planted acres (mil. ac.)	67.6	
Yield (bu./ac.)	84.6	
Beginning stocks [1]	4,259	1,830
Production [1]	4,921	7,850
Total supply [1]	9,185	9,683

1988/89 AND 1989/90 CORN SUPPLY AND DEMAND—Continued

	1988/89	1989/90
Feed and residual [1]	4,000	4,200
F,S,&I [1]	1,255	1,300
Total domestic [1]	5,255	5,500
Exports [1]	2,100	1,950
Total use [1]	7,355	7,450
Ending stocks [1]	1,830	2,233
Loan rate [2]	1.77	1.65
140 percent of loan rate [2]	2.48	2.31
Average market price [2]	2.45–2.70	1.65–2.05

[1] Million bushels.
[2] Dollars per bushel.

The above analysis assumes normal weather for 1989, with corn production projected to be about 7,850 million bushels. However, if corn production should turn out to be 10 to 15 percent lower (the drought-reduced 1988 corn crop was 33 percent below May 1988 projections), it would likely push 1989/90 corn prices near 140 percent of the loan rate ($2.31 per bushel). In 1988/89, even with large carryin stocks of 4,259 million bushels, corn market prices are estimated to range between $2.45 to $2.70 per bushel. If crop damage is severe enough, prices would rise to trigger release of the FOR, and all stocks would be accessible.

If corn prices are above 140 percent of the loan rate, feed grain FOR quantities could be allowed to fall to zero. Under such conditions, minimum CCC sales policy could be revised downward to 115 percent of the loan rate (for 1989 corn, $1.90 per bushel) plus reasonable carrying charges.

Entry into the FOR from the 1989 crops of wheat and feed grains will be permitted only if (1) supplies are abundant, (2) reserve quantities fall below the minimum levels specified above, and (3) market prices for these commodities do not exceed 140 percent of their respective 1989 price support loan rates.

b. CCC has analyzed the possibility of extending some or all of the maturing corn loans. Such analysis also considered several combinations of extending certain crop loan years and not others.

c. Consistent farm policy is important to me, just as it is to farmers. We try to avoid frequent and unexpected policy changes by making the proper policy decision initially. But we must reserve some flexibility to alter program provisions in response to market conditions.

d. Our current analysis indicates that extending no loans may result in storage outlays of $30 million above outlays incurred for loan extensions. I am confident CCC will take every opportunity to minimize outlays associated with loan forfeitures.